Versatile specialists

Premier Partner of BRITISH FENCING

29 years of profitable growth

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

2005

$1,485.1m
Managed gross premiums

$1,015.6m
Group share

Beazley MGA started in the US

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

US hurricanes Katrina, Rita and Wilma $101bn

2006

$1,762.0m
Managed gross premiums

$1,371.0m
Group share

Beazley in Hong Kong takes full ownership of APUA and renames it Beazley Limited

Expansion of construction & engineering team into Singapore

Beazley opens new office in Paris

Lloyd's active members: 2,211

Capacity: £14.8bn

Syndicates: 65

2007

$1,919.6m
Managed gross premiums

$1,561.0m
Group share

2008

$1,984.9m
Managed gross premiums

$1,620.0m
Group share

Beazley opens new office in Munich

Political risks & contingency group formed as new division

Acquisition of Momentum Underwriting Management

Accident & life formed as a new division

US hurricane Ike $20bn

2009

$2,121.7m
Managed gross premiums

$1,751.3m
Group share

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

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

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

1986 → 1991

Trading began 1986

$13.4m
Managed gross premiums

$42.5m
Managed gross premiums

Began trading at the 'old' 1958 Lloyd's building in 1985 with a capacity of £8.3bn

Beazley, Furlonge & Hiscox established and takes over managing syndicate 623

Specialty lines and treaty accounts started

UK windstorms $3.5bn

European storms $10bn

1992 → 1997

$58.8m
Managed gross premiums

$128.4m
Managed gross premiums

Management buyout of Hiscox share

Commercial property account started

Corporate capital introduced at Lloyd's followed by Lloyd's Reconstruction and Renewal

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

US hurricane Andrew $17bn

UK Bishopsgate explosion $750m

US Northridge earthquake $12.5bn

Beazley began life in 1986. Since then, we have grown steadily in terms of the risks we cover, the clients we serve and our geographic reach, and today Beazley is a mature insurance business with a well-diversified portfolio. We have weathered some of the toughest times the Lloyd's market has seen in more than three centuries and our underwriting operations have an unbroken record of profitability.

2010

$2,108.5m
Managed gross premiums

$1,741.6m
Group share

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

Beazley changes functional and presentational currency to US dollar

Beazley opens new office in Oslo

Special purpose syndicate 6107 formed to grow reinsurance business

Chile and NZ earthquakes $14bn

Deepwater Horizon explosion triggers biggest oil spill in history

2011

$2,079.2m
Managed gross premiums

$1,712.5m
Group share

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

Launch of the Andrew Beazley Broker Academy

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

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

Tohoku earthquake in Japan $37bn

Floods in Thailand $16bn

US tornadoes $15bn

NZ earthquake $16bn

2012

$2,278.0m
Managed gross premiums

$1,895.9m
Group share

Expansion into aviation and kidnap & ransom markets

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

Political risks & contingency expands into French market

Superstorm Sandy $25-30bn

2013

$2,373.0m
Managed gross premiums

$1,970.2m
Group share

Construction Consortium launched at Lloyd's

Miami office opened to access Latin American reinsurance business

Beazley Flight – comprehensive emergency evacuation cover – launched

Beazley data breach cover extended in Europe. 1,000th breach managed

Local representation added in Rio to develop Latin American insurance business

2014

$2,424.7m
Managed gross premiums

$2,021.8m
Group share

Construction Consortium extended to Lloyd's Asia

Middle East office opened to access local political risk and violence, terrorism, trade credit and contingency business

Space and satellite insurance account started

D&O Consortium launched at Lloyd's

Locally underwritten US business grows 19% to $537m

Versatile specialists since 1986

1998 → 2000

$168.8m
Managed gross premiums

$256.1m
Managed gross premiums

Recall, contingency and political risks accounts started

Marine account started

European storms $12bn

2001 → 2004

Flotation 2002

$431.6m
Managed gross premiums

$1,374.9m
Managed gross premiums

Management buyout of minority shareholders

EPL and UK PI accounts started

Flotation raised £150m to set up Beazley Group plc

D&O healthcare, energy, cargo and specie accounts started

Established local representation in the US

US 9/11 terrorist attack $20.3bn

SARS outbreak in Asia $3.5bn

Versatile specialists

Beazley's specialist expertise derives in many cases from long experience in our chosen lines of business.

Jewellers' block, which we have been underwriting for 23 years, is a good example. Our portfolio includes more than half of the UK's retail and wholesale jewellers, and we have in recent years been expanding into other markets where our underwriting and claims expertise is valued. Beazley now insures jewellers, large and small, in four continents, providing valuable risk management advice, flexible underwriting and a responsive claims service.

For more examples of the versatility and expertise of our people, please turn to page 9.

Profit before income tax
$261.9m
(2013: $313.3m)

Combined ratio
89%
(2013: 84%)

Return on equity
17%
(2013: 21%)

Strategic report

Governance

Financial statements

The Strategic Report
Describes our corporate strategy, our business model and the key differentiators that distinguish our business.

Strategic initiatives
This section describes the seven strategic initiatives that are driving our business forward.

We focus on two initiatives in particular – managing for performance (how we attract and retain top talent) and growth in the US.

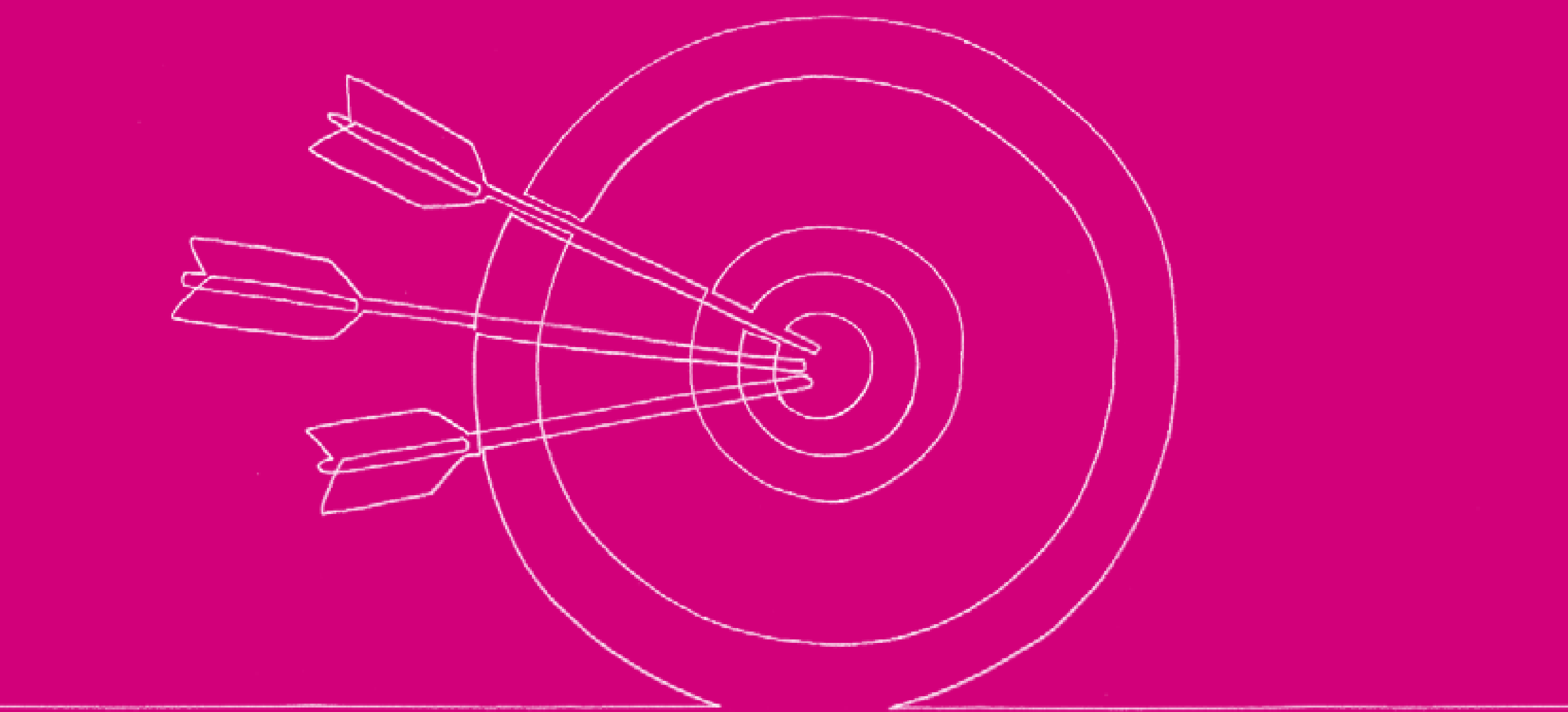
Find out more on page 8

Versatile specialists
How we invest in top talent

Find out more on page 9

10 years in the US
How we have developed a successful business

Find out more on page 12

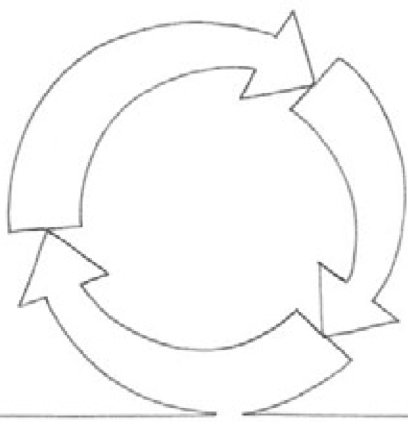


Our business model and strategy

Our business model

Reconfirmed annually through the business planning process, our business model is as follows:

- Beazley is a specialist insurer. We have a targeted product set, largely in commercial lines of business, and underwrite each risk on its own merits
- We employ highly skilled, experienced and specialist underwriters and claims managers
- We tend to write capped liabilities
- We operate through specific insurance hubs rather than seeking a local presence in every country in which we do business
- We transact business through brokers and work with selected managing general agencies and managing general underwriters to improve distribution in specialist niches



Our strategy

Our strategy is directed towards the achievement of our vision, which is to become, and be recognised as, the highest performing specialist insurer. To this end, our strategy comprises:

- Prudent capital allocation to achieve a well diversified portfolio that is resistant to shocks in any individual line of business
- The creation of an environment in which talented individuals with entrepreneurial spirit can build successful businesses
- The ability to scale our operations to ensure that client and broker service keep pace and, wherever possible, improve as the company grows
- Consistent investment in product innovations to provide better products and services to improve our clients' risk transfer

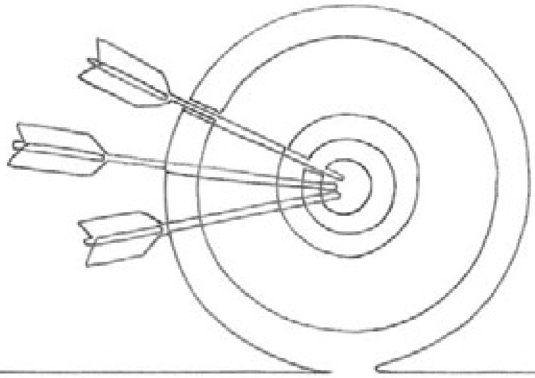
Risks

Given the nature of Beazley's business, the key risks that impact financial performance arise from insurance activities and fall into the following categories:

- Market cycle risk:
  The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions
- Natural catastrophe risk:
  The risk of one large event caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Beazley's risk profile, this could be a hurricane, major windstorm or earthquake
- Non natural catastrophe risk:
  This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include an act of terrorism, an act of war or a political event
- Reserve risk:
  The risk that the reserves put aside for claims to be settled in the future turn out to be insufficient

Our approach to managing these and other risks is described in detail on page 53.

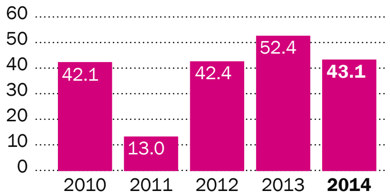
Our key performance indicators



KPIs

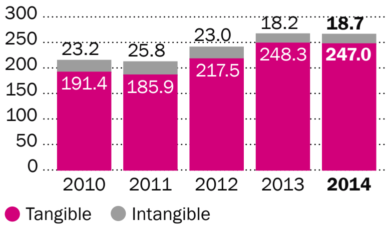
Financial highlights

Earnings per share (c)



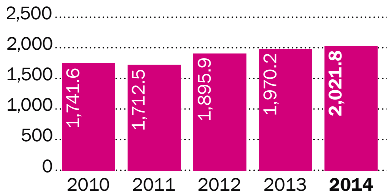
EPS is at 1.2x total dividend cover for 2014.

Net assets per share (c)



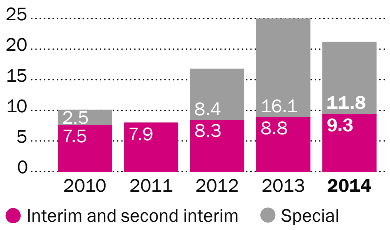
Net assets per share are consistent with 2013.

Gross premiums written ($m)



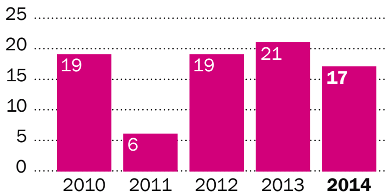
Growth of 3% in 2014 and 16% since 2010.

Dividends per share (p)



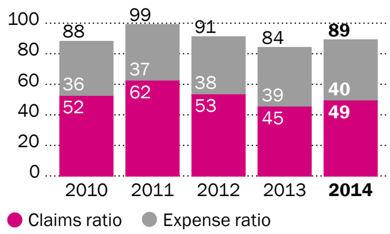
The second interim dividend in 2014 is in line with our dividend strategy and has grown by 5%. In addition we are paying a special dividend of 11.8p.

Return on equity (%)



Cumulative five year return on equity of 82%.

Combined ratio (%)



Our combined ratio has averaged 90% over five years.

Find out more www.beazley.com

Find out more on page 114

Our key differentiators

We seek to differentiate ourselves from our competitors in three key ways, all of which are important value drivers for Beazley.

Entrepreneurial spirit

Corporate culture matters. Our open, collegial and collaborative culture means our clients and brokers interact with entrepreneurial underwriters who give straight answers and make decisions quickly. Our values are professionalism, integrity, effectiveness and dynamism.

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

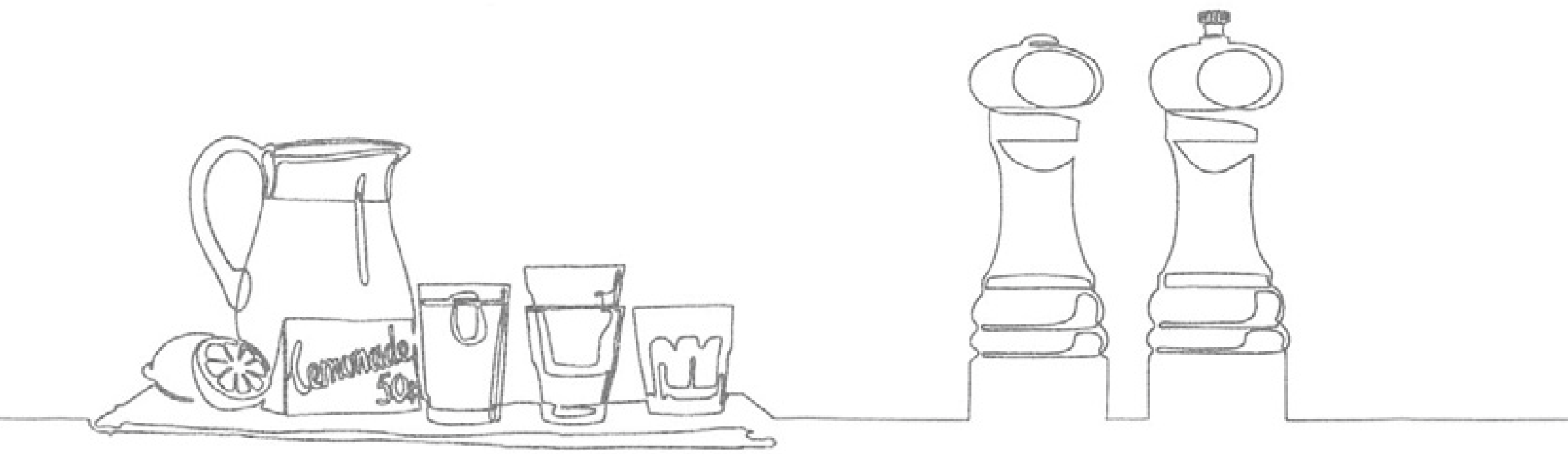
Market conditions can change rapidly and nimbleness is critical. Our underwriters moved rapidly in 2014 to take advantage of new growth opportunities in lines such as employment practices liability, environmental liability and M&A transaction liability.

Strong partnerships

Our business is not conducted through anonymous transactions: we rely on strong relationships with both brokers and clients. The reciprocity of these relationships matters.

Strong partnerships with clients are based on the expectation that Beazley will be prepared to provide continuity of coverage over the years. Our clients understand that, for us to deliver on this expectation, we need to charge a fair premium to cover the risk even if, for a time, a competitor may be willing to write the same risk at an uneconomic rate. By adopting this approach, we have been able to provide clients with reliable cover year after year.

We believe that brokers add enormous value to clients in the purchase of insurance and reinsurance in the areas in which we specialise. All of our underwriters work constantly to strengthen their personal relationships with brokers and our broker relations team, headed by Dan Jones, keeps a close watch on our corporate broker relationships. We understand that the best insurance products in the world will not realise their potential without the support and advocacy of well informed brokers.



Entrepreneurial spirit

Strong partnerships

Diversified business

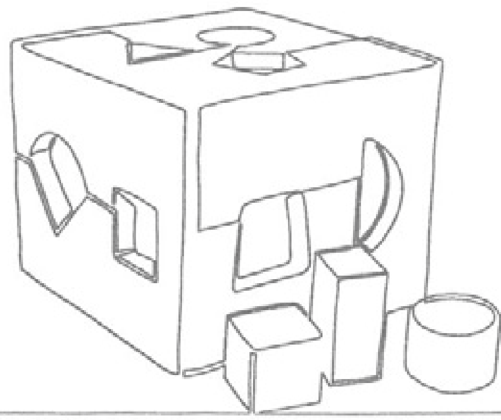
value

Diversified business

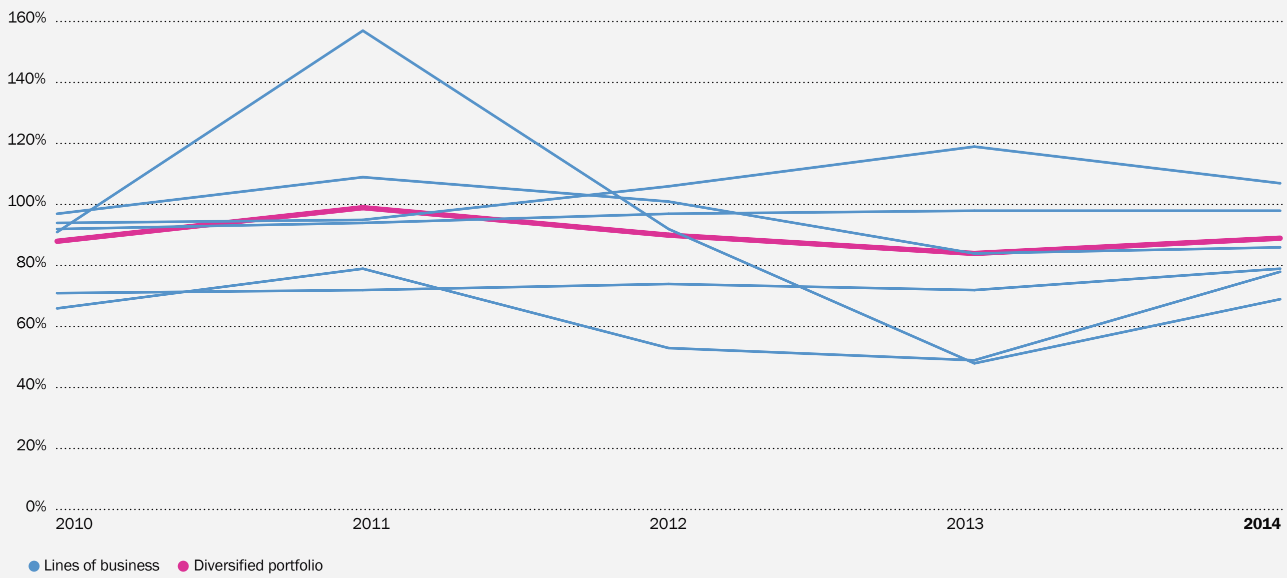
For our shareholders, Beazley aims to deliver sector leading returns on equity with relatively low volatility. The key to this performance over time is the balance of Beazley's portfolio across specialist classes driven by different cycles. This enables us to target an average combined ratio of 90% with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

Our approach goes well beyond diversification by line of business. We also diversify by geography and size of client; smaller risks are often less volatile over the insurance cycle than larger risks. In addition, our business is a balance of 'short tail', meaning that claims usually emerge within a year of the policy's inception, and 'medium tail', which means that claims on average take up to six years to crystallise fully.

The evolution of our portfolio by line of business and the impact this diversification has had on our combined ratio over the past five years can be seen in the chart below.



Diversified portfolio achieves consistent combined ratio through market cycles



Our key differentiators *continued*

Diversified business *continued*

Life, accident & health

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

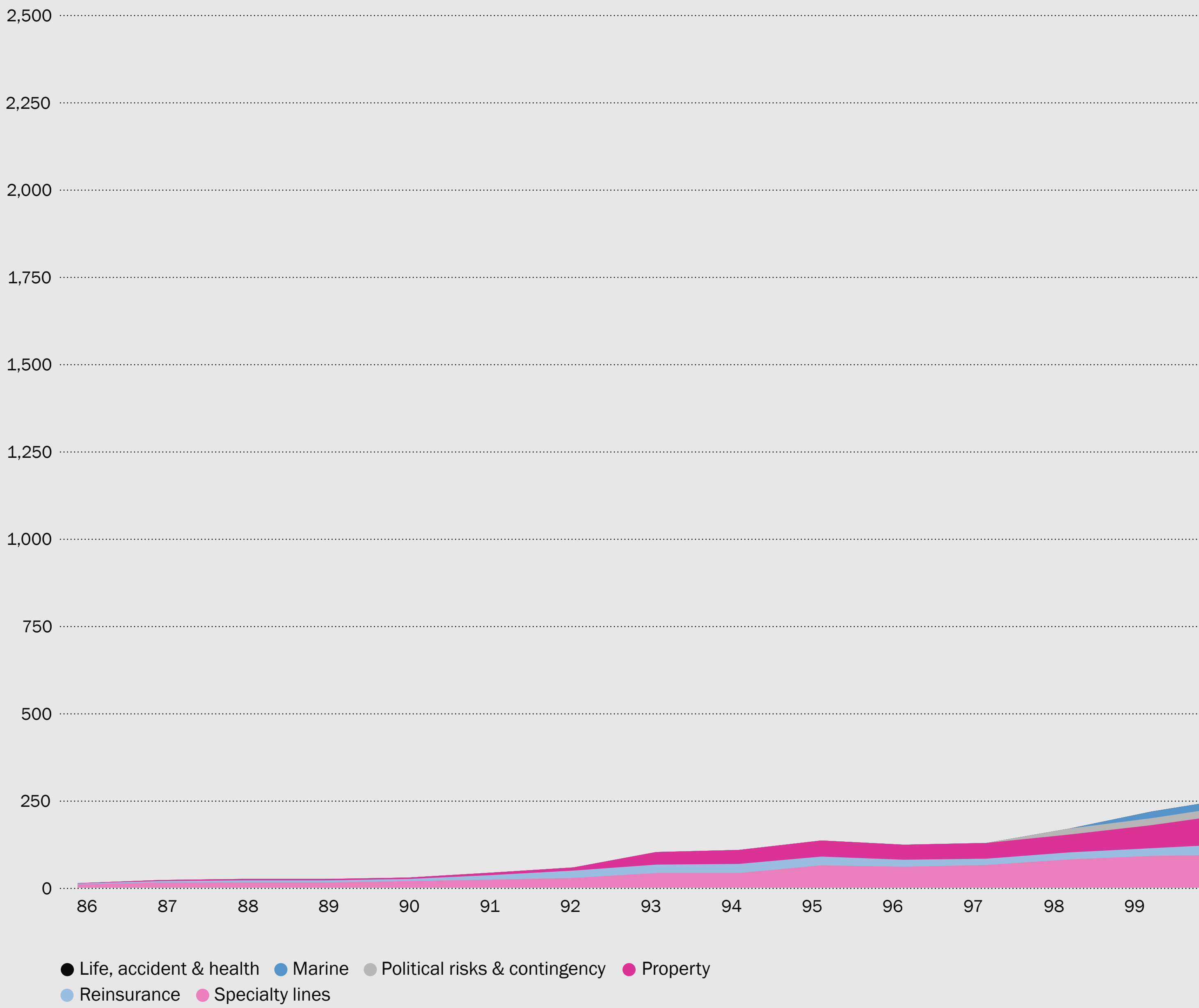
Marine

We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. We insure over 400 of the world's foremost upstream oil and gas companies and have extensive experience insuring a wide variety of cargoes including project, fine art and specie.

Political risks & contingency

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

Managed gross premiums growth by division ($m)



☛ Property

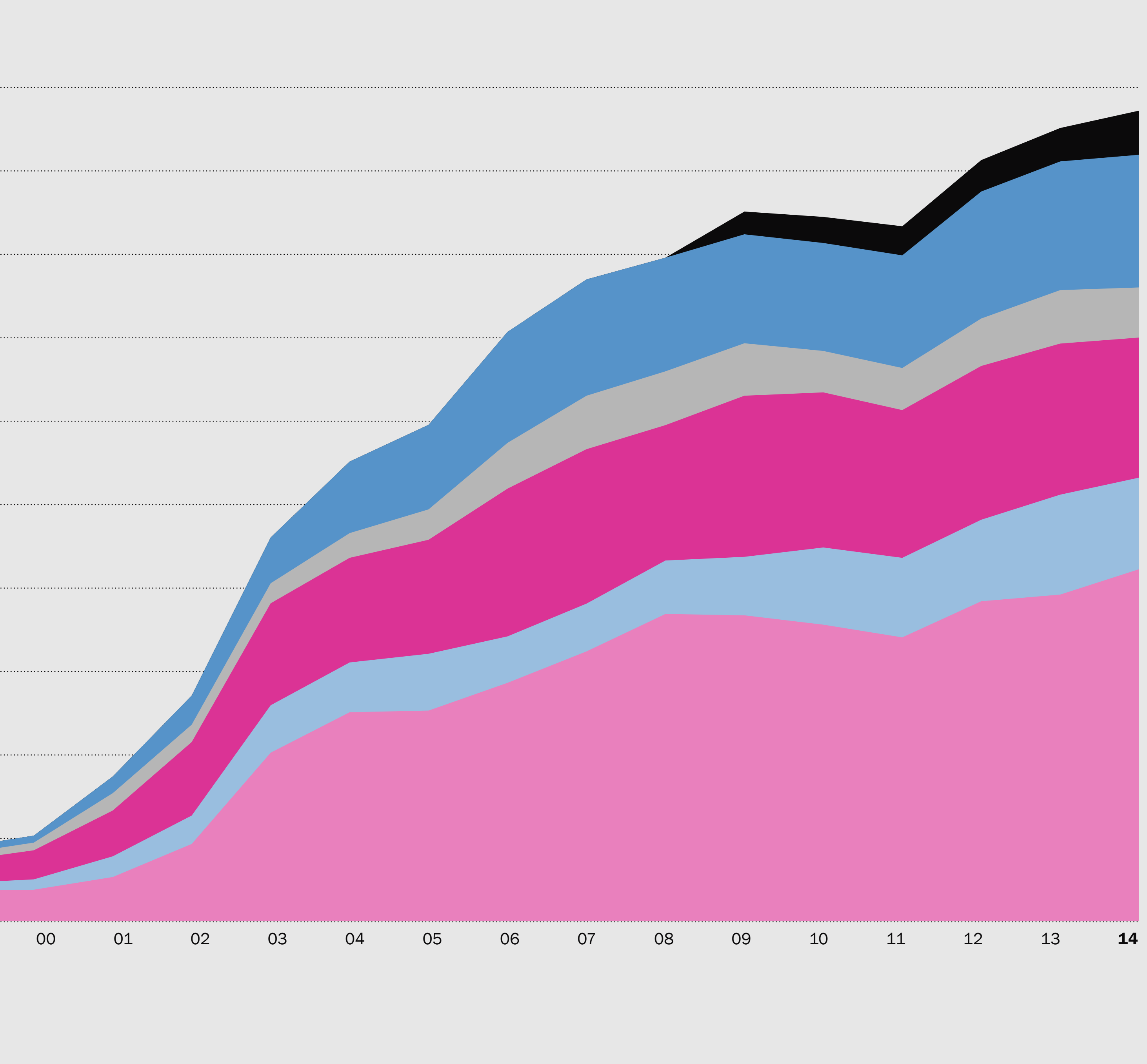
We've protected clients ranging from Fortune 1000 companies to homeowners through 22 years of natural and man-made catastrophes. We underwrite this business through three platforms – Lloyd's, the US and Singapore – with a business focus on commercial property, engineering and construction risks and select homeowners' business.

☛ Reinsurance

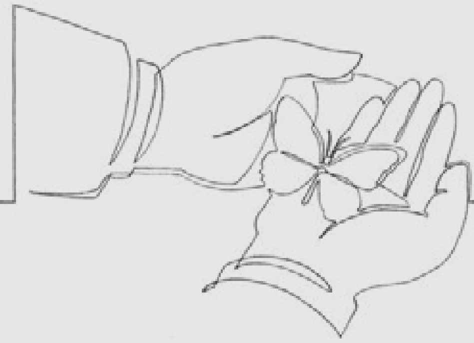
The reinsurance team specialises in writing worldwide property catastrophe, per risk, aggregate excess of loss and pro-rata business and casualty clash. The majority of our top clients have reinsured with us for 20 years or more.

☛ Specialty lines

Specialty lines comprises management liability and professional liability risks, including cyber liability, underwritten for clients on both a primary and excess basis in North America, Europe and around the world. Our US clients are served both by our underwriters at Lloyd's and by our US based underwriters.



Strategic initiatives
Developing our business to sustain consistency



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

In order to achieve this, we have developed seven strategic initiatives. The pages that follow provide more detail on two of these initiatives.

On the facing page, we look at what we mean when we talk about 'top talent' under our 'managing for performance' initiative. We are also focusing on growth in the US. This is described in more detail on page 12, celebrating the tenth anniversary of our US operations in 2014.

Our seven strategic initiatives aim to focus on the things that will help us achieve our vision:

1. *Managing for performance – attracting, retaining and developing top talent across our business.*

Find out more on page 9

2. *Broker relations – building strong relationships with brokers is vital for our underwriters and claims professionals; it is the heart of business production at Beazley.*
3. *Growth at Lloyd's – Beazley's roots are at Lloyd's and we transact a large majority of our business there. The Lloyd's market continues to be very attractive to us in terms of its access to business from around the world, the professionalism of the Lloyd's brokers, and its capital efficiency.*
4. *Growth in the US – our aim is to grow our business in a profitable and sustainable manner, with a balanced portfolio.*

Find out more on page 12

5. *Growth in Europe – we plan to grow our share of the specialist business written in Europe that would not otherwise come to Beazley via London.*
6. *Growth in Asia Pacific – our current focus is on growing our businesses in Singapore and Australia.*
7. *Innovation and product development – a successful specialist insurer cannot stand still: innovation and the rapid commercialisation of promising new products are essential to profitable growth.*

Versatile specialists: *Investing in top talent around the world*

Strategic initiatives

Our 'managing for performance' strategic initiative focuses on how we attract, retain and develop top talent.

Specialist expertise and versatility are key qualities that Beazley seeks in its people. We offer a supportive environment to build a business, but without the expertise (as well as the enthusiasm) that brokers expect from Beazley, nothing will happen. Versatility is also critical in markets that can change very rapidly.

The seven individuals profiled here have taken full advantage of the opportunities presented by Beazley for career progression. Their backgrounds are diverse, but they all possess abundant reserves of specialist expertise and versatility.

Jayne Cunningham *Focus group leader, Environmental liability*

Multiple stakeholders

Jayne joined Beazley's environmental insurance team in 2010 and in 2014 assumed the leadership of the team, which has six underwriters in the US and one in London.

What I bring to Beazley… I have more than 20 years of environmental underwriting experience, with particular expertise in developing environmental solutions that spur investment in former industrial or brownfield sites. When a real estate transaction involves repurposing former industrial sites there are numerous stakeholders: attorneys for both the buyer and seller, lenders, environmental consultants; and local, state and federal regulators. The underwriter's task, and one that I relish, is to provide an insurance solution that will satisfy all parties and ensure that the deal closes.

What I liked about the challenge… It's an incredibly competitive marketplace – one where the number of competitors has more than doubled over the last five years. That said, we have a strong following wind now from the recovering US economy. I have really enjoyed developing the business strategy for Beazley's environmental team, recruiting new team members, and building a reputation for Beazley as a go-to market for this type of business. I love the entrepreneurial environment at Beazley and feel invigorated working with the calibre of colleagues I have around me on a daily basis.

Since you took over the role, how would you describe your experience…? It's been incredibly fulfilling, but challenging wearing several hats. Each member of the team brings a wealth of experience and knowledge, and more importantly an eagerness to share and contribute to the growth of the business. The turn in the economy has seen demand for our products soar and it has been important for us to invest time in team building so that we have a cohesive and sustainable strategy for success.

Versatile specialists *continued*

Will Roscoe
Focus group leader, Property

Closer to the client

Will joined Beazley in 2011 after eight years as a commercial property broker at Willis. Prior to that he served in the British Army in Britain, Germany and Iraq. In 2014, Will moved from London to Beazley's Atlanta office, where he manages the company's excess and surplus lines (E&S) property team across the southeast region as well as Beazley's US homeowners' business.

What I bring to Beazley... This is my first managerial position within Beazley. However, I previously managed a broking team at Willis and before that I led soldiers on combat operations so I am no newcomer to managing people, a role I very much enjoy. The E&S market was not new to me as I underwrote similar risks with the open market property team in London and was familiar with the product we offer.

What I liked about the challenge... We are targeting growth of around 15% in our E&S business in 2015, so from a business point of view it's an exciting time to be here. More broadly, I have been given an opportunity to move my family to a truly amazing country and experience a different culture, different insurance market and meet the many domestic US brokers who send business to Beazley through a London broker. In this way I am closer than ever to the source of our business.

Since you took over the role, how would you describe your experience...? A rollercoaster ride and very steep learning curve, but immensely enjoyable. I have loved working with the very many talented Beazley associates in the US and travelling to so many cities. The Atlanta office is a great place to work and I am looking forward to building on the relationships and friendships I made in 2014.

Empowered underwriting

Michael joined Beazley's London office in September 2011 as a senior claims manager responsible for UK and international political risks, trade credit, terrorism and contingency claims. In January 2014 he relocated to Singapore to assume a new role underwriting political risks and trade credit for the Asia Pacific market.

What I bring to Beazley... I trained as a lawyer and Beazley was my first job outside private practice. In my initial role as a senior claims manager, the skills I had learned and honed in my years as a lawyer were easily transferable. The big difference at this stage was to overlay all of that with a healthy dose of commercial realism and judgement. In moving to underwriting, I discovered that the experience that I had gained handling complex political risks and trade credit claims stood me in good stead. An insurance policy is a promise to pay: in my initial role I was fulfilling that promise, now I am making it.

What I liked about the challenge... Change is always exciting and I saw each move, although a little frightening at the time, as an opportunity to advance, grow and improve myself. Fortunately my colleagues were always patient, understanding, willing to teach and supportive.

Since you took over the role, how would you describe your experience...? Three words for me describe the experience of moving into a new role at Beazley: sad, exciting and empowering. Sad because I am leaving a role to which I had grown accustomed. Exciting because it was a new beginning. Empowering because I have always felt I have been given the necessary support and training, the requisite authority and the right amount of discretion. Progress within Beazley, unlike a law firm, is not linear. It is what you make of it.

Michael Lum
Underwriter, political risks & trade credit

Beth Diamond *Claims team leader, Technology, media & business services*

Premium on experience

Beth heads the claims team for Beazley's technology, media & business services (TMB) focus group, the company's largest. In conjunction with external counsel, she helps advise clients on how best to defend themselves against some highly complex legal actions.

What I bring to Beazley... I am at heart a problem solver, and I love that Beazley provides me with no lack of challenging and intellectually stimulating problems to solve. With complex claims, you often need a 360 degree view to identify the approach that will make most sense for clients. We see some of the largest and most complex claims in insurance. There's a huge premium on experience and that's something I bring too.

What I liked about the challenge... Each day at Beazley is different from the one before. My role and responsibilities are constantly evolving and being part of a business line that is on the cutting edge of legal developments means each day presents an opportunity to learn something new. I know I can make a real difference for our insureds, and support them in the face of new theories of liability that the plaintiffs' bar, with seemingly infinite ingenuity, is apt to propose. Beazley has allowed me to contribute materially to shaping the outcomes of key legal issues impacting our insureds across the US and around the world.

Since you took over the role, how would you describe your experience...? It is hard to beat the opportunity to join something in its early stage and be part of the team of builders. I remember meeting Andrew Beazley shortly after our New York office opened – he came over to introduce himself to me and say how pleased he was that I had joined. As Andrew walked away, I thought to myself I had made the best choice possible as Beazley was a uniquely inclusive place that values its people like no other organisation I have known. I still feel that way.

Rossella Bollini *Underwriter, Technology, media & business services*

Once in a lifetime opportunity

Rossella joined Beazley's London office from a Lloyd's coverholder in June 2012 to underwrite directors and officers (D&O) liability business. In August 2014, she moved to the technology, media & business services (TMB) team, the crucible for Beazley's fastest growing product, Beazley Breach Response.

What I bring to Beazley... To underwrite D&O risks successfully you need to be able to analyse corporate entities from different industries and different markets, taking a broad view of each and every client. The same is true of the risks we see on the TMB team. The growth potential for our data breach product in Europe is huge. In this context, I believe my ability to handle and service business in five different languages is a valuable asset.

What I liked about the challenge... Being able to join Beazley's TMB team at this time seemed to me like a fantastic opportunity, one of a lifetime really. Beazley Breach Response can fairly be said to be the most innovative product in the most innovative – and fastest growing – part of the specialist insurance market. I have been very fortunate at Beazley. The management liability team, which I first joined, is the largest underwriter of US D&O risks at Lloyd's – so I have been able to move from one team with a leadership position in the market to another. I am convinced that being able to underwrite new products within a supportive company like Beazley is an amazing opportunity; it stimulates creativity and increases energy levels at work.

Since you took over the role, how would you describe your experience...? The transition has been very smooth and well coordinated, and the team has made me feel very welcome. They have very diverse backgrounds, both nationally and professionally, which I enjoy. Beazley Breach Response is in no sense a traditional insurance product and I have enjoyed explaining its different dimensions to the brokers we work with.

Collaborative ethos

Doug is head of US operations for Beazley, a role he assumed in October 2013. As Beazley has expanded in the US, the demands on its operations, to provide excellent service to brokers and to underwriting and claims teams, and to ensure that people, process and technology are aligned, have grown significantly.

What I bring to Beazley... A passion for helping Beazley to become and be recognised as the highest performing specialist insurer. I genuinely care about the company and the people who work here, and that translates into enthusiasm for what we do and how we do it. I am eager to collaborate with all parts of the business to move the organisation forward.

What I liked about the challenge... My current role was a new one when I took it on and so I have had a great deal of freedom to shape it. I feel empowered to implement ideas and solutions which help our underwriting and claims teams to succeed. Most of all, I like the fact that Beazley has a challenging culture in which you are accountable to a high standard. It's not an easy place to work, but it is rewarding.

Since you took over the role, how would you describe your experience...? I have thoroughly enjoyed my experience since taking over the role. It has given me opportunities to help determine our US strategic direction and enhance our performance. The US organisation is honest and transparent about what works well and what does not. I'm surrounded by energetic and intelligent people who learn from one another. I have always liked that about Beazley.

Doug Colosky *Head of US operations*

Denis Bensoussan *Underwriter, Space*

At the ultimate underwriting frontier…

Denis joined Beazley's marine division in London in March 2014, charged with expanding the company's reach to the stratosphere and beyond – literally. He has been working to establish a satellite insurance capability at Beazley, following Beazley's successful move into aviation insurance in 2012.

What I bring to Beazley... A successful satellite underwriter will combine strong technical knowledge of the class – it is a complex business – with good recognition in the market and access to the specialist brokers who focus on this business. I have more than a dozen years' experience of the space market in both broking and underwriting roles, and my relationships in the aerospace industry and with brokers are strong.

What I liked about the challenge... Beazley's marine division has a good track record in fostering the development of new business lines, most recently in aviation insurance. I knew that I'd be joining a team under Clive Washbourn with huge credibility in the market. At the same time, I was very excited about the entrepreneurial challenge of starting from scratch and building up a successful, profitable and longstanding space insurance business.

Since you joined, how would you describe your experience...? I have not been disappointed! I've found a strong internal commitment at Beazley to develop and invest in specialist business lines. Beazley has a very strong brand in the market and that is a hugely valuable asset to support the development of a new line of business. On a day to day basis, I love my job. I particularly enjoy being involved with cutting-edge technologies and fascinating projects while interacting with top scientists and engineers and negotiating on high stakes deals. It's a very niche, exciting and seemingly volatile class of business and the financial interests are substantial. Each and every policy requires tailor-made coverage.

10 years in the US: *Celebrating a successful business that leverages our expertise*

Strategic initiatives

Beazley established a local underwriting presence in the United States in 2004.

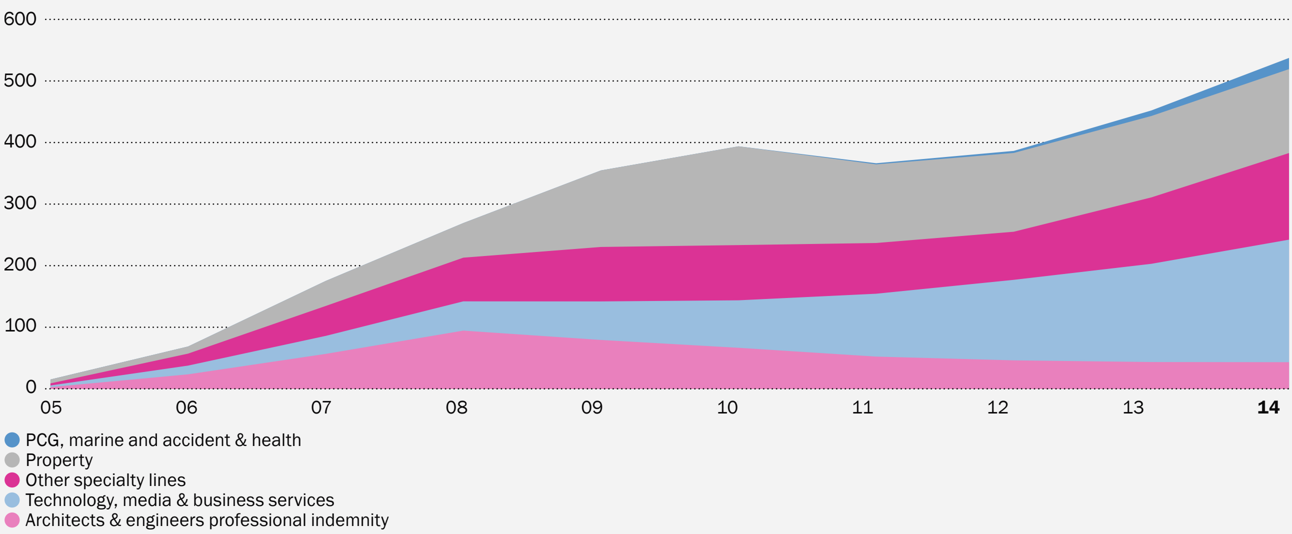
The goal was to obtain access to attractive business that did not normally come to London.

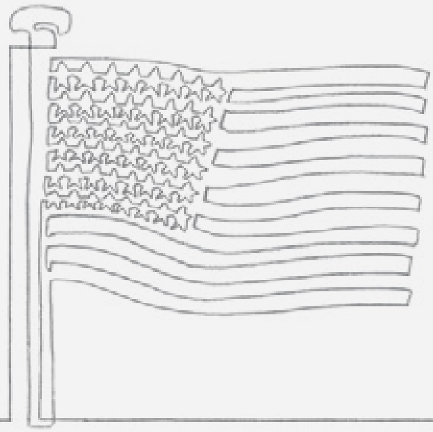
Ten years later, as competition for large risks underwritten in London continues to rise, the strategic benefits of this decision have become clear.

In 2014, locally underwritten US business accounted for 27% of Beazley's total gross premiums written, up from 23% in 2013. In dollar terms, Beazley's US underwriters wrote $537.0m in 2014, equivalent to more than half of the group's total premiums a decade earlier.

In the ten years since King Flynn (Beazley's first US underwriter, still with the company) started underwriting high value homeowners' business from an office in Ponte Vedra in Florida, much has changed. The US economy has been through its sharpest contraction since the Second World War and is only now regaining momentum. Demand for different lines of insurance has also fluctuated significantly, as have the frequency and severity of claims.

US gross premium over 10 years ($m)





The pace of Beazley's growth against this background has naturally varied and the business has not always grown as rapidly as that of some competitors. As a company Beazley has always targeted profitability first and growth second, and the US business has been no exception.

Talent and infrastructure

One constant throughout this period has been the high calibre of underwriting and claims talent that the company has attracted. This was more challenging in the early years when Beazley was less well known in the US market and the long term success of its US growth strategy was unproven. Nevertheless, Beazley succeeded in attracting talented and well respected underwriters, claims managers and support staff from major competitors who relished the opportunity to build a new business from the ground up.

The growth Beazley has achieved over its first decade in the US has been made possible by steady investments in systems to enable insurance to be transacted and serviced in a scalable fashion, and in an automated manner wherever possible. These investments have also helped speed the commercialisation of promising new products.

The initial focus of Beazley's US underwriters was on specialty lines and property business. More recently, the US team has expanded and diversified to offer group accident & health insurance, political risks, contingency and terrorism covers, as well as surety reinsurance. At the same time the specialty lines team has expanded from traditional professional liability and management liability covers to a much broader range of products. Environmental liability was added in 2009, crime and fidelity risks in 2011 and in 2014, Beazley expanded its team focusing on mergers and acquisition (M&A) transactional liability risks, recruiting an underwriter in Atlanta.

A significant growth area in 2014 was healthcare. Healthcare providers of all kinds represent the largest single sector of the US economy. Beazley's US underwriters insure hospitals against management liability and regulatory liability risks, and a wide range of healthcare providers for professional liability.

Beazley's property insurance business was significantly expanded in 2009 through the acquisition of First State; a well respected underwriting manager focusing on excess and surplus lines (E&S) commercial property business, formerly owned by Hartford Financial Services Group. E&S property business accounted for 18% of gross premiums underwritten in the US in 2014, or $94.8m. The property team also insures high value homeowners and commercial construction risks, known in the US as builders' risk.

Strong broker relationships have also been fundamental to the success of Beazley's strategy. In the early years, these were often based on connections previously established in London, but US underwriters quickly forged local relationships. More recently, underwriters have focused on a smaller number of brokers that have a proven track record of bringing business within the company's underwriting appetite. This more focused distribution strategy made a significant contribution to the 19% premium growth achieved in the US in 2014.

Innovation also contributed. Beazley has released a steady stream of new products into the US market, the most successful of which to date has been Beazley Breach Response (BBR), focusing on data breach risk. BBR was developed by Beazley's technology, media & business services (TMB) team, which had historically focused on writing errors and omissions insurance for large scale technology, media and consulting groups, including many household names in the technology sector. But back in 2002, the state of California enacted a new law that would come to be seen as a game changer for the insurance industry. Noting that 'identity theft is one of the fastest growing crimes committed in California', the law imposed new rules on the reporting of data breaches to affected individuals. Other states followed suit and today 47 states have data breach regulations.

10 years in the US *continued*

The underwriters on Beazley's TMB team spotted an opportunity. While other insurers were beginning to offer coverage that focused on the third party liability risk of being sued after a data breach, Beazley saw the business challenge differently. The initial, and most pressing, challenge for a business that has suffered a data breach is not the risk of being sued, but how best to handle the breach while maintaining customer confidence.

From this insight, BBR was developed and launched in 2009. The key differentiator of the coverage was the provision of comprehensive breach response services in the aftermath of a data breach, including the notification of up to two million customers (later increased to five million) in compliance with all of the state laws, and more recently federal laws, governing such notifications.

Interest in BBR was high from the beginning, fuelled by a spate of high profile data breaches which has continued to this day. By 2014, a year in which data breaches were rarely out of the headlines, BBR was Beazley's best selling product worldwide. The US remains by far the most important market for the product, but it has also been launched in the UK, France and Italy.

2005

46

Farmington
Office opened

$15m
Gross premiums written

Beazley MGA started in the US

Beazley acquires Omaha Property & Casualty Company and renames it Beazley Insurance Company, Inc. (BICI)

BICI licenced to write in all 50 states

2006

121

Chicago
Office opened

$69m
Gross premiums written

Premium growth driven primarily by Beazley's specialty lines division covering architects & engineers, management liability and technology, media & business services products

2007

161

New York
San Francisco
Philadelphia
Offices opened

$175m
Gross premiums written

Premium growth supported by property insurance written on admitted and surplus lines basis

Specialty lines continues to grow business in existing lines and adds healthcare products

2008

195

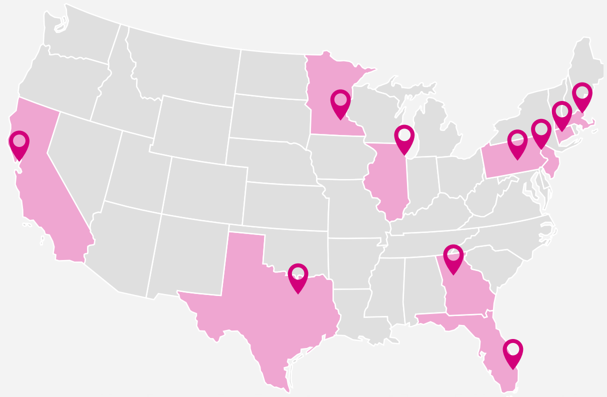
Boston
Office opened

$270m
Gross premiums written

Premiums grow another 54% through both property and specialty lines business

US offices

Beazley has ten offices in the US. The first was opened in Farmington in 2005, and the most recent in Dallas in 2014.



Summary and outlook
The vast majority of Beazley's growth in the US has been organic. As talented insurance professionals become available, they are recruited to join existing teams or to establish new teams. By the end of 2014 Beazley employed almost 350 people in the US, working out of ten offices.

Beazley is targeting approximately 20% growth from its US operations in 2015. The smaller scale risks in which the company specialises in the US currently offer more attractive profit margins than the large risks typically underwritten in London. Although the company's US business is still young, after ten years it can be said to have come of age and is well equipped to compete with much larger global and domestic insurance companies.

Beazley US timeline

2009

284

Atlanta
Office opened

$354m
Gross premiums written

Premiums grow 31%

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

Started writing environmental liability

Beazley Breach Response (BBR) cyber breach response product launched

2010

296

$393m
Gross premiums written

Beazley changes functional currency to US dollar

Begins underwriting political risks insurance

2011

327

Minneapolis
Office opened

$366m
Gross premiums written

Started writing crime & fidelity risks

2012

321

$386m
Gross premiums written

2013

327

Miami
Office opened

$452m
Gross premiums written

Premiums grow 17%

Beazley manages 1000th data breach

2014

340

Dallas
Office opened

$537m
Gross premiums written

Premiums grow 19%, crossing the half billion mark

Begin underwriting mergers and acquisitions transaction liability business and surety reinsurance

Chairman's statement

After another year of strong performance, the board is confident that Beazley possesses the skills and resources required to achieve its vision.

Dennis Holt
Chairman

I am pleased to report that your company delivered another very strong performance in 2014, recording a return on average shareholders' equity of 17% (2013: 21%) against a continuing background of declining premium rates.

Beazley's combined ratio of 89% (2013: 84%) was in line with the average achieved over the past five years, once again demonstrating the effectiveness of our well balanced portfolio in delivering consistent high quality underwriting returns. Earnings per share were 43.1c and net tangible assets per share remained flat at 247.0c.

The board is pleased to announce a second interim dividend of 6.2p per ordinary share plus a special dividend of 11.8p per ordinary share. Together with the first interim dividend of 3.1p this takes the total dividends declared in 2014 to 21.1p per ordinary share (2013: first interim dividend of 2.9p, second interim dividend of 5.9p plus a special dividend of 16.1p, totalling 24.9p).

As this once again demonstrates, Beazley is committed to capital management. We continue to invest in profitable growth opportunities but when capital is not fully deployed, beyond a prudent buffer, we return funds to shareholders. Employing this approach, we have maintained focus on our total shareholder return (TSR) which, on a cumulative basis, is in excess of 300% over the last five years. Premiums underwritten by our US operation, which now constitutes a strong platform to complement our presence at Lloyd's, have risen by 19% to $537.0m during the year.

We have signalled for some time now the intensifying headwinds affecting our short tail, catastrophe exposed business underwritten at Lloyd's. These have been given added impetus by the low level of catastrophe claims in 2014. Nonetheless, our response to competitive pressures is never passive: we do not simply wait for the underwriting cycle to turn. We seek to manage our portfolio dynamically, adjusting our exposures to individual lines of business, geographies and distribution channels to maximise risk-adjusted returns.

This may mean making challenging underwriting decisions that not everyone is prepared to do. In the past year there has been more talk about how the reinsurance market has too much capacity, rather than on the action needed to address the risks that this presents. However, Beazley has acted. Our reinsurance division underwrote 9% less in gross premium in 2014 than in 2013 and we will prune the book further in 2015. Other catastrophe-exposed accounts, such as our large commercial property insurance book in London and our energy insurance book, also shrank, by 12% and 18% respectively, last year.

The business underwritten by our largest division, specialty lines, is in a different pricing phase, particularly with regard to the smaller risks to which we now have access through our US underwriters. Two years ago, many insurers of professional indemnity and management liability business had yet to adjust their pricing to take account of very weak investment returns. That process began in 2012 and has continued through 2013 and 2014: we believe it still has a little way to run.

As rates return to more attractive levels, we have been working hard to improve our access to the best business that brokers can show us. Our distribution strategy is deliberately flexible: we work closely with both retail brokers and wholesale brokers, as well as with managing general agents or Lloyd's coverholders whom we know and trust. These relationships take time to develop. With a ten year track record in the US and a proven commitment to our selected lines of business, we are now regarded by US brokers as we have long been regarded by London brokers – as a dependable and knowledgeable partner.

Wherever we operate, innovative products and well designed services are key elements of the Beazley value proposition for brokers. For example in Europe we have two particularly attractive offerings: Beazley Breach Response, our data breach policy that has developed since 2009 into a market leader in the US, and MyBeazley.com, an e-trading platform for small scale professional indemnity business meticulously designed to enhance the service brokers can offer to their small business clients.

As these examples illustrate, innovation in our markets can take varied forms. If our innovations can make brokers' lives easier or help them to better look after their clients, they will strengthen the relationships that have been critical to Beazley's success since it was founded in 1986. These are constants in the history of the company that transcend market cycles.

Dividend policy and capital management

The board strategy is to grow the dividend by between 5% and 10% per year and this has always been achieved. In addition, our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities that may arise; this is further supported by our fully undrawn banking facility. As the implementation of Solvency II approaches, we now measure our capital using a Solvency II balance sheet where we are targeting a surplus capital buffer in the range of 15-25%. We continue to manage our capital actively and to the extent that we have surplus capital outside of this range the board will consider means to return this capital to shareholders, as demonstrated through the announcement of a special dividend in 2014.

Outlook

Beazley's vision is to become, and be recognised as, the highest performing specialist insurer. Clearly we are at a juncture that requires tight underwriting and expense discipline. Alongside this, however, the most successful insurers will have the confidence and capacity to invest in profitable growth opportunities at a time when competitors may be holding back. It is a difficult balance but the board is confident that your company possesses the skills and resources required and remains on track to achieve its vision.

Dennis Holt
Chairman

4 February 2015

Chief executive's statement

The steady diversification of Beazley's portfolio that we have been pursuing over a number of years showed its value in 2014.

Andrew Horton
Chief executive

Beazley performed very strongly in 2014, delivering a profit before income tax of $261.9m (2013: $313.3m) on gross premiums of $2,021.8m (2013: $1,970.2m). Our combined ratio of 89% (2013: 84%) was in line with our five year average. This reflected a benign claims environment, particularly for catastrophe exposed business, but at a time of falling premium rates across many lines of business, specialist expertise and disciplined underwriting also played key roles.

In July we celebrated the tenth anniversary of our local presence in the United States, Beazley's largest market since the company's earliest days. It was fitting that these celebrations occurred at a time of strong growth in our locally underwritten US business, which accounted for more than a quarter of our premiums last year ($537.0m, up 19% on $451.8m in 2013). We now have a well developed underwriting and claims platform in the US that offers an alternative – and increasingly valuable – source of profitable growth opportunities to complement our London business.

Broadly speaking, we saw the most attractive growth opportunities in 2014 in the small and mid sized professional indemnity, management liability and property business that has been a key focus for our underwriters in the US since we established our operation there a decade ago. Competition for large risks, most of which we underwrite in London, was more intense, particularly for catastrophe exposed lines of business such as treaty reinsurance, commercial property and energy.

Given this split, it is not surprising that specialty lines, our largest division, which focuses on professional indemnity and management liability risks, grew 8% to $895.7m in 2014. We secured significant rate rises for our life, accident & health division in Australia following losses in 2013, helping to boost that division's premiums overall by 32%. Two of our divisions, reinsurance and political risk & contingency, saw gross premiums shrink by 9% and 6% respectively under the pressure of falling rates. The silver lining for the group as a whole was that the cost of our own reinsurance protections also fell.

The steady diversification of Beazley's portfolio that we have been pursuing over a number of years showed its value in 2014 with the contrasting fortunes of different segments of our business. Divisions that have historically focused heavily on a single line of business are now far more diversified and therefore have more scope to manoeuvre in challenging markets. This is true of our property division, which as recently as 2011 was dominated by large risk, or 'open market', property business underwritten in London. Our open market property account has since shrunk in relative terms from 67% of the property division's premiums in 2010 to 54% today. We have seen similar diversification within our marine division, which now underwrites satellite and aviation business as well as a far larger book of marine liability business than was the case a few years ago.

Prior year reserve releases contributed $158.1m to our 2014 underwriting result (2013: $218.0m). We maintain a consistent and conservative approach to reserving which enables us to make prior year reserve releases as we get more certainty on our view of how ultimate claims will develop across underwriting years.

Find out more on page 40.

Claims activity

The year was distinguished by a low incidence of catastrophe claims, particularly from meteorological or seismic causes. An exception was Hurricane Odile, which hit the Baja California peninsula of Mexico in September, causing severe damage to hotel properties in Cabo San Luca. The cost to Beazley, net of reinsurance, is estimated at $12.5m.

The aviation war risks market had a turbulent year, paying out claims equivalent to nearly a decade's worth of premiums following the destruction of aircraft at Tripoli airport in July and the downing of Malaysia Airlines flight MH17 over Ukraine in the same month. Beazley has been underwriting aviation war risks for a number of years and accordingly had some exposure to these events. We also incurred a share of claims from the failure of two satellite launches in the course of the year.

Beazley is a major insurer of professional indemnity and management liability business through our specialty lines division. Claims activity was generally subdued for these portfolios, particularly for the small and mid sized risk business that we access through retail brokers in the United States. Large risk business underwritten in London for clients such as major US law firms and hospital systems saw a higher level of claims. Evidence of the strengthening US economy was apparent in our claims experience for employment practices liability (EPL) business, which continued to fall after spiking during the recession. EPL claims tend to increase when employers are under severe economic strain and abate when economic conditions improve.

Data breaches remained a major focus of attention in corporate America during 2014 as a string of large retailers and one bank announced breaches affecting, in many cases, tens of millions of individuals. Beazley is well known as a pioneer of data breach insurance but our principal focus has been on assisting small and mid sized organisations manage the consequences of breaches and defend themselves against third party lawsuits that might arise. We had modest exposure to the large scale breaches that took place during the year.

Investment performance

The investment world entered 2014 expecting government bond yields in developed markets to rise as monetary stimulus was removed and as rate rises in the US and the UK became increasingly imminent. In fact yields fell across almost all jurisdictions where we have significant bond positions – particularly in Europe, where monetary stimulus was increased, but also in the US and the UK where it was reduced or removed. The fall in yields was beneficial to our investment portfolio and contributed to an increase in overall investment return from 1.0% in 2013 to 1.9% in 2014. All main components of our investment portfolio generated positive returns in 2014, notably the hedge fund portfolio which had an excellent year.

During 2014 we took the management of our core rates portfolio and oversight of our external managers in house. We continue to work with Falcon Money Management on our hedge fund and illiquid credit portfolios.

Chief executive's statement *continued*

Growth of locally underwritten US premiums

19%

(2013: 17%)

Find out more on page 14

Risk management

We monitor the risks that could affect the group very closely. The biggest risks to our financial performance relate to our insurance business: at a time of declining premium rates and increasing competition, the margin for error for insurers in pricing risk naturally diminishes. That said, we are very familiar with the pricing dynamics of our lines of business and have always been willing to let business go if it does not meet our criteria. In accordance with this principle, we scaled back our reinsurance treaty business by 9% in 2014 following a large influx of capital from pension funds that drove down premium rates.

Detailed information on our approach to risk management and the measures we take to address the spectrum of risks that could affect our financial performance can be found in the risk management section on page 53.

Growth opportunities

We practice a consistent and rigorous approach to evaluating growth opportunities at Beazley, critical in a market that is growing increasingly competitive. On the whole we have preferred organic growth to growth by acquisition; we have also preferred to branch into new lines of business that are related to our existing lines. With our broad range of products and geographies there are frequently opportunities to offer products developed in one location to brokers in another. This was something our construction & engineering team did in 2014 when, in alliance with three other Lloyd's insurers, they established the Construction Consortium at Lloyd's Asia, based in Singapore – an initiative that followed the success of the consortium established by the same partners in London in 2013. Providing capacity up to a maximum of $212.5m per risk, the Construction Consortium at Lloyd's Asia will offer an attractive new alternative for the insurance of the region's largest construction projects.

Above all, our growth depends on the recruitment of talented individuals who have a track record of identifying profitable underwriting opportunities. We know that we will not always be able to hire such individuals at a time when market conditions are optimal, but we are confident that, over time, we can offer them attractive opportunities to build profitable books of business.

This approach was exemplified in 2014 in our property division. In July, we announced that Simon Jackson and John Brown, two of the most respected underwriters of large scale commercial property risks at Lloyd's, would be joining Beazley at the beginning of 2015. Under the direction of Jonathan Gray, who founded our property division in 1992, open market property has been an area in which Beazley has carved a strong leadership position. Simon will be succeeding Jonathan as head of the open market property team in June this year: we are deeply grateful to Jonathan for all his contributions to Beazley over the years.

Market conditions for large property risks are unquestionably challenging at present, but we are confident that we have in place an open market property team that is well equipped to navigate this environment.

Other segments of our property portfolio enjoyed more favourable rates in 2014. These included our small business book, comprising both small scale commercial property risks written through Lloyd's coverholders, principally in the US, and homeowners accounts in the US and UK. This book grew 7% in the course of 2014 to $69.7m. A potential future growth area is our excess & surplus (E&S) lines commercial property business in the US, comprising mid sized commercial property risks that have proved better insulated from competitive pressures than our large risk book.

The US was also the focus of growth opportunities for specialty lines, our largest division, led by the continuing success of our data breach product, Beazley Breach Response (BBR). In 2014, our technology, media & business services (TMB) team outstripped treaty reinsurance as our largest single focus group. The TMB team has a longstanding leadership position in technology errors and omissions insurance, but its recent growth has derived principally from BBR, an impressive achievement for a form of cover that was in its infancy only five years ago.

The ability to innovate rapidly to meet changing client needs, exemplified by BBR, is essential to a specialist insurer. At a time of falling premium rates, it is also a bulwark against commoditisation, amply demonstrated in 2014 by our healthcare team, which developed new products for the insurance of clinical trials and for manufacturers of nutraceutical (suppliers of dietary supplements and other food products promoted as offering specific health benefits) products. Our miscellaneous medical book, comprising a wide range of insurance offerings for diverse healthcare providers, grew by 15% in 2014 to $24.5m, rivalling our long established hospital professional liability book. With the US healthcare market accounting for almost 18% of the country's gross domestic product – a larger share than in any other developed economy – we see significant growth opportunities ahead.

To take advantage of these and other opportunities requires talented underwriters and claims professionals, as well as strong back office systems and expertise to ensure high quality service and to commercialise promising new products swiftly. We continued to invest in these areas in the US in 2014.

The third prerequisite for profitable growth is strong broker relationships. We decided in 2013 to refocus our US distribution on a smaller number of brokers who understood our appetite and had consistently brought us good business. This approach paid off last year and we saw bound premium from our top nine brokers in the US climb by $51.4m.

Our business model relies heavily on face to face interaction between our underwriters and brokers to develop tailored solutions that meet the needs of the brokers' clients. We are increasing the opportunities for such interaction with new hires and new offices: in 2014 we opened an office in Dallas and we will shortly be opening our second office on the west coast, in Los Angeles. Six locations – New York, Chicago, Atlanta, Dallas, Los Angeles and San Francisco – have been designated for 'hub' offices, offering multiple products to local brokers.

Claims service

Underwriting skills are of course only half of the picture for clients who also rely on our claims teams to provide swift and sure service in the event of a loss or a lawsuit. Large sums can ride on the judgement of our claims professionals and the lawyers we work with to defend our clients against third party claims. Last year we worked closely with two hospital clients in California to defeat class action lawsuits relating to data breaches that could have cost them, in aggregate, more than $4.5bn.

In the summer we invited Brunswick Research to interview 50 brokers with whom we work in London and the US. The brokers, all of whom had extensive experience of Beazley's claims service, were interviewed anonymously. Four years previously, we had conducted a similar study, also through Brunswick, with 30 brokers: then the findings were mixed, highlighting a number of areas for improvement. Last year, the feedback was much more positive: 68% of the participating brokers said they had a very positive view of Beazley deriving from their experience of our claims service and a further 28% said their view was positive. Brunswick reported that many of the brokers 'struggled to suggest ways for Beazley to further improve the service it provides'.

I am certain that there are ways in which we can improve our claims service and, under the leadership of Anthony Hobkinson, our claims teams will certainly not be resting on their laurels. Nevertheless, it is encouraging to know that our service is appreciated by the brokers we work with.

Outlook

Insurance companies exist to pay claims. Subdued claims activity of the kind we have seen in many lines of business for the past two years casts an artificially rosy light on the economics of our business. Beazley's response has been consistent throughout our history: we will focus on specialist products that command higher margins and walk away from underpriced business; we will keep a keen focus on expenses while continuing to invest prudently for the future; and we will return capital that we cannot profitably deploy to our investors. We are doing all these things now.

Andrew Horton
Chief executive

4 February 2015

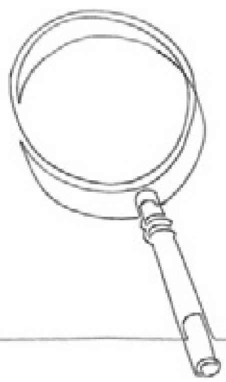
Q&A with the chief executive

Andrew Horton reviews Beazley's performance and describes the risks and opportunities he foresees in 2015.

Andrew Horton
Chief executive

Q What do you see arresting or reversing the current downward drift in premium rates for so many classes of insurance and reinsurance business?

A Pressure on rates is being driven by many factors. Out of these, the three most important are: muted economic growth in developed economies meaning demand for complex insurance is not growing, low levels of catastrophe losses meaning the industry is profitable, and a low interest rate world which is attracting capital into insurance in search of yield. Any of these drivers could change in the near term in which case markets will correct; equally all could remain with us for a while.



Q What do you see as the most promising new insurance products in the Beazley pipeline?

A We have grown our cyber and data breach product considerably over the past few years. We have a number of other products and all of our teams focus on innovation. If I had to single out one area it would be healthcare. Our healthcare team is highly innovative. Healthcare is the largest industry in the US, representing more than 17% of gross domestic product. The drivers of demand for healthcare expenditure – ageing populations and advances in medicine and medical technology – are also commonly found in other developed economies. We have a global healthcare team that focuses on developing innovative products for the US market that can frequently also be offered to healthcare providers in other countries. We have just launched a new policy for nutraceutical companies – suppliers of dietary supplements and other food products, promoted as offering specific health benefits. We will also shortly be launching a policy to protect the clinical research organisations that conduct clinical trials and their sponsors.

Q Given the lack of historical data for new classes of business such as data breach insurance, how do you price risks fairly and sustainably?

A Data breach insurance is a rapidly growing area in the insurance industry and it does not have the same type of historical loss information that is available in some other classes of business. Nonetheless, there is a great deal of information available about the frequency and severity of breaches. Laws requiring public reporting of many types of breaches have been in place for up to ten years, providing detailed information about the frequency and severity of breaches over time. At Beazley, we have written insurance covering data breaches for many years, and have handled more than 2,000 breaches for our clients. We therefore have substantial internal data to validate the assumptions we have made on breach frequency and size with which to price our products.

Historical data is only a subset of the data we typically look at when assessing a risk. It's really part of the definition of being a specialist insurer that we look beyond actuarial data, because the past may not always be a good guide to the future. We also rely on technical research, assistance from computer security experts and modelling to analyse and predict potential systemic events, and apply the same methods of mitigating exposure as we do in more established classes of business.

Q Given the market conditions that you foresee for 2015, what is a reasonable return on equity to expect from a specialist insurer such as Beazley?

A I can tell you that we achieved post tax return on equity of 19% in 2012, 21% in 2013 and 17% last year. Looking forward, I don't think there are many insurance company CEOs who would predict that their companies will perform better in 2015, 2016 and 2017 than they did in 2012, 2013 and 2014.

In years with very low catastrophe losses, we may underperform insurers and reinsurers with large catastrophe exposed portfolios. However, given the massive influx of capital into these lines of business, I feel confident that the balance of our portfolio should help us perform well over time.

Q Do you expect to see your business in the US continuing to grow relative to your Lloyd's market business?

A Yes. All the analysis we have done has indicated that there is considerable headroom for us to continue to grow in the US market. Our US underwriters focus predominantly on smaller risks where premium rates are currently relatively favourable. The Lloyd's market has a strong focus on business where rates are generally under pressure. For the next couple of years we expect the US to offer more profitable growth opportunities.

We have invested in our US operations consistently over the ten years during which we have had a local presence in the country. Those investments are paying off as we speak: premiums from our US business accounted for a quarter of our total premiums in 2014, with 19% growth in premiums in 2014 over 2013, and we see growth continuing to be strong into 2015.

The purpose of our recent investments has been two-fold. We have sought to broaden our geographic footprint in the US, so we can be closer to the brokers who have attractive business. We have also made investments in people and processes which will speed the commercialisation of promising new products. We expect to see immediate returns from these investments.

Q Lloyd's 'vision 2025' and the recent 'London matters' report highlight the importance of being relevant to emerging markets. What is Beazley doing to grow in these markets?

A We are excited about growth opportunities in Asia and particularly opportunities that we can access through Singapore, which is fast developing as a major insurance hub. I actually believe that Lloyd's – our market collectively – is very alive to the opportunities that Asia presents. However, we are equally realistic in recognising that it will take a long time for insurance penetration for our specialty products in Asia to rival insurance penetration for our products in the United States. People tend to focus too much on raw GDP figures without looking at GDP per head figures, which lag far behind, or insurance penetration figures, which lag even further behind GDP growth.

Will we be writing a lot of employment practices liability insurance or lawyers' professional indemnity insurance in China in the near future? I doubt it. On the other hand, can we write more construction business? I am sure we can and I'm delighted that we exported the concept of the Construction Consortium at Lloyd's to Singapore last year.

Q Beazley has a growing workforce. How important to you is diversity at all levels of the company?

A For me it is clear that smart people from different backgrounds and with different life experiences will make smarter decisions than less diverse teams. Our roots are in a market that has not historically been very diverse: women are still in a small minority in underwriting roles at Lloyd's and, despite the cosmopolitanism of London, ethnic diversity at Lloyd's has been quite low too.

So we're working to change this and we're making progress, but it will take time and a concerted effort from everyone in the market.

Chief underwriting officer's report

Strong performance in an increasingly competitive market.

Neil Maidment
Chief underwriting officer

Beazley's balanced portfolio, with its diverse spread of business, enabled the group to deliver another strong underwriting result in 2014. In a market experiencing increasing competitive pressure, which we expect to continue into 2015, the group achieved a combined ratio of 89% in 2014 (2013: 84%) while gross premiums written increased by 3% to $2,021.8m (2013: $1,970.2m).

Rating environment

Premium rates charged for renewal business decreased by 2% during 2014 across the portfolio (2013: an increase of 1%). Rates on renewals in our largest division, specialty lines, were flat on average in 2014 and moderate rate increases were achieved in five of its seven sub-divisions. Rate increases of 9% were seen in our life, accident & health division. All other divisions experienced falling rates on renewal business in 2014, with rates decreasing by 1% in property, 2% in political risk & contingency, 6% in marine and 10% in reinsurance.

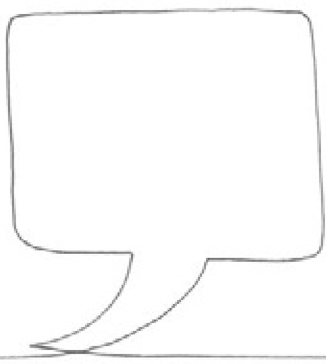
Premium retention rates

Retention of business from existing brokers and clients is a key feature of Beazley's strategy. It enables us to develop a deep understanding of our clients' businesses and requirements, affording greater insight into the risks involved in each policy we write and enabling us to price risk sustainably. The table below shows our retention rates by division compared to 2013.

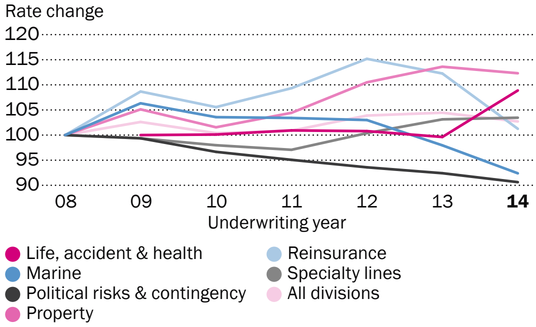
Retention rates*	2014	2013
Life, accident & health	86%	92%
Marine	85%	86%
Political risks & contingency	76%	67%
Property	77%	74%
Reinsurance	81%	88%
Specialty lines	82%	80%
Overall	81%	81%

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

Despite some volatility at individual division level, our overall premium retention rate in 2014 was consistent with the prior year and in line with our five year average.



Cumulative renewal rate changes since 2008 (%)



Divisional commentary

Buoyed by the steady economic recovery in the US, specialty lines wrote gross premiums of $895.7m (2013: $829.8m), representing growth of 8% compared to 2013. We have continued to invest in our growing US platform, focusing on our ability to offer a full range of products in our key US locations. We have found that small to mid sized risks have offered the best opportunities for profitable growth and, in its tenth year, our US platform offers excellent access to such business to compliment our larger risk business seen in London. In Europe, MyBeazley.com, an online platform that makes it easier for brokers to transact small business with Beazley, was launched.

The improved performance of our life, accident & health division in 2014 was pleasing. In Australia, the team achieved significant rate rises following severe losses reported on a number of accounts in 2013 while in the US business began to flow through our local platform. We have invested in these lines of business in both markets over the past three years and expect to see increasing returns from these investments in 2015.

Our marine division recorded a combined ratio of 78% (2013: 72%) against a backdrop of increased competition and rate pressure, particularly relating to hull, war and energy risks. While margins have tightened in these classes, our marine division continued its strong performance relative to the market as a whole. Having entered the aviation market in 2012, disciplined underwriting has contributed to the establishment of a strong premium base. In 2014, we wrote gross premiums of $25.4m while having limited exposure to the loss activity which has taken place in 2014. Denis Bensoussan joined Beazley in 2014 to write satellite risks and we see opportunities to achieve moderate growth in this area in 2015.

Our political risks & contingency division, while delivering strong profitability in 2014, has been growing our presence outside London. We located two underwriters in our New York office to begin underwriting terrorism risks, while we opened a new office in Dubai in November to access local political risk & contingency business. This office represents the sixth country in which the division has an underwriting presence.

In 2014, our property division achieved a combined ratio of 86% (2013: 84%) and contributed $54.3m to the group's profit. We saw the best market conditions in small and medium risks, and were able to grow this portion of our property book compared to prior years. This growth was offset by our decision to write less large risk, catastrophe exposed business, where we see more competitive markets and rate pressure.

Aided by lower than usual natural catastrophe activity, our reinsurance division achieved a combined ratio of 69% (2014: 49%) while experiencing significant rate pressure on renewal business. We have maintained our underwriting discipline and scaled back our catastrophe budget while continuing to develop a global presence for reinsurance business with offices in Munich, Singapore and Miami contributing gross premiums written of $39.9m in 2014 (2013: $29.6m).

Outlook

We anticipate the increasingly competitive market conditions in the large risk market to continue in 2015. The lower rates experienced in 2014 were driven by an over-capitalised reinsurance market and further encouraged by the relatively favourable natural catastrophe claims experience of the last 2-3 years. Balancing these competitive pressures, the prospect of real economy growth in the UK and in the US, where we sell most of our products, is positive for our business written in those markets.

We will retain focus on segmenting our portfolio and optimising our underwriting returns. Having achieved premium growth in locally underwritten US premium of 19% in 2014, coupled with growth in specialty lines as a whole of 8%, our 2015 business plan concentrates on these areas where we see the best opportunities for profitable growth. Beazley's underwriting expertise, experience of multiple market cycles and well-balanced geographically diverse portfolio should allow us to remain well placed to deliver another positive underwriting result in 2015.

Neil Maidment
Chief underwriting officer

4 February 2015

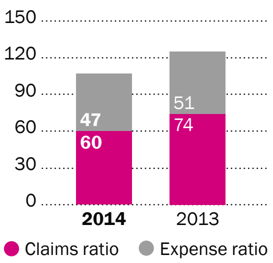
Performance by division

A successful year, with a strong and broad-based underwriting performance.

Life, accident & health

Christian Tolle
Head of life, accident & health

Combined ratio (%)



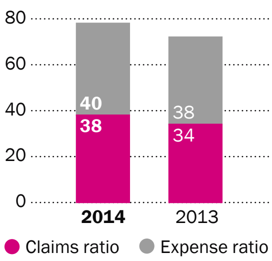
	2014 $m	2013 $m
Gross premiums written	132.2	100.3
Net premiums written	113.7	96.1
Results from operating activities	(5.8)	(17.9)
Claims ratio	60%	74%
Expense ratio	47%	51%
Combined ratio	107%	125%
Rate change	9%	(1%)

Find out more on page 28

Marine

Clive Washbourn
Head of marine

Combined ratio (%)



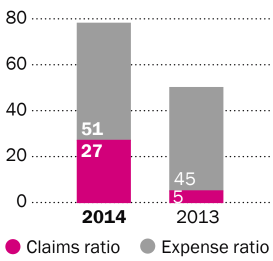
	2014 $m	2013 $m
Gross premiums written	325.2	315.9
Net premiums written	289.9	282.1
Results from operating activities	71.1	83.0
Claims ratio	38%	34%
Expense ratio	40%	38%
Combined ratio	78%	72%
Rate change	(6%)	(5%)

Find out more on page 30

Political risks & contingency

Adrian Lewers
Head of political risks & contingency

Combined ratio (%)



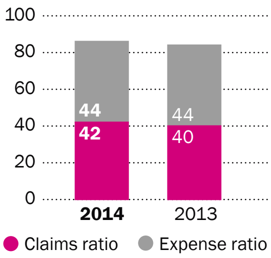
	2014 $m	2013 $m
Gross premiums written	123.2	131.2
Net premiums written	101.2	110.1
Results from operating activities	26.2	54.4
Claims ratio	27%	5%
Expense ratio	51%	45%
Combined ratio	78%	50%
Rate change	(2%)	(1%)

Find out more on page 32

Property

Mark Bernacki
Head of property

Combined ratio (%)



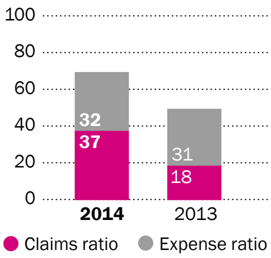
	2014 $m	2013 $m
Gross premiums written	344.7	371.4
Net premiums written	297.6	308.7
Results from operating activities	54.3	65.2
Claims ratio	42%	40%
Expense ratio	44%	44%
Combined ratio	86%	84%
Rate change	(1%)	3%

Find out more on page 34

Reinsurance

Patrick Hartigan
Head of reinsurance

Combined ratio (%)



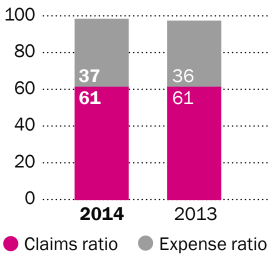
	2014 $m	2013 $m
Gross premiums written	200.8	221.6
Net premiums written	153.8	171.5
Results from operating activities	60.0	90.7
Claims ratio	37%	18%
Expense ratio	32%	31%
Combined ratio	69%	49%
Rate change	(10%)	(3%)

Find out more on page 36

Specialty lines

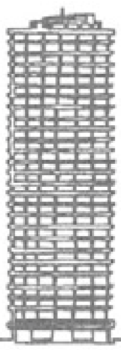
Adrian Cox
Head of specialty lines

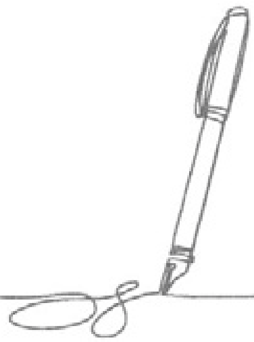
Combined ratio (%)



	2014 $m	2013 $m
Gross premiums written	895.7	829.8
Net premiums written	776.5	708.0
Results from operating activities	72.5	53.1
Claims ratio	61%	61%
Expense ratio	37%	36%
Combined ratio	98%	97%
Rate change	–	3%

Find out more on page 38

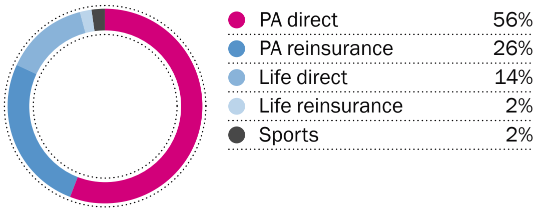


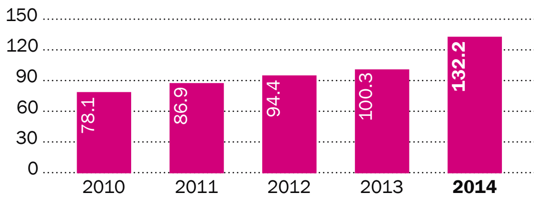


Life, accident & health

A significantly improved performance as our US strategy begins to bear fruit.

Christian Tolle
Head of life, accident & health





$132.2m
Gross premiums written

The life, accident & health division delivered an improvement in performance in 2014 with a combined ratio of 107% (2013: 125%) on premiums of $132.2m (2013: $100.3m).

The benefit derived from steps we have taken to improve the profitability of our Australian business combined with new business now beginning to flow through our US platform. In both markets, we expect the benefits of our strategy to deliver increasing returns in 2015.

Our largest team, both in terms of premiums written and number of underwriters, is located in London. The team focuses mainly on non standard personal accident cover for an array of businesses, underwritten both on a reinsurance basis (excess of loss or proportional treaty) and direct. We saw competition continue to intensify across this business in 2014, with rates under most pressure for catastrophe-exposed excess of loss risks. However, we still see acceptable margin in this business and maintained premiums level in 2014 relative to the previous year.

We are also a prominent insurer in the London market of disability risks for professional athletes mainly based outside North America. We cover a range of professional sports including, but not limited to, professional football (soccer), rugby union and cricket. We see potential to grow this business in 2015.

In Australia, we have seen a marked turnaround in our business following the corrective action we took at the beginning of the year after severe losses on certain accounts in 2013. We retained the majority of this business in 2014 – which relates to disability insurance for the members of superannuation funds, as Australia's government supported retirement funds are known – and achieved rate increases following the loss activity in 2013.

In May we announced the promotion of Suzanne White to head our Australian business, succeeding Noel Nosworthy. Under Suzie's leadership, we aim to expand our pre-existing distribution network for personal accident business, encouraging brokers to show us open market risks. In a number of cases, we have been successful in winning business under enterprise bargaining agreements reached between large Australian employers and their employees.

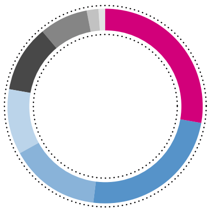
In the US, we are beginning to see the fruits of our strategy to present Beazley as an attractive source of supplementary medical and disability insurance that affords 'gap protection' to employees seeking cover over and above that offered by their employers. Uncertainty about the implementation of the Affordable Care Act has retarded growth in demand for this coverage, but the underlying attractions of gap protection coverage at a time of stubbornly high healthcare costs are now making themselves felt. With licences to offer gap protection covers in 38 states and a growing range of distribution channels, Beazley should be well placed to benefit from this demand.

Marine

A strong underwriting performance in an extremely competitive market.

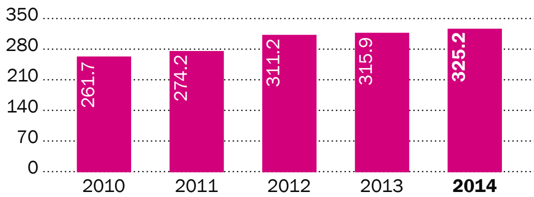
Clive Washbourn
Head of marine

Portfolio mix



Energy	28%
Hull & miscellaneous	24%
Cargo	15%
Liability	11%
War	11%
Aviation	8%
Satellite	2%
Kidnap & ransom	1%

Gross premiums written ($m)



$325.2m
Gross premiums written

Competition across most of the lines underwritten by the marine division intensified in 2014, in some cases significantly. Against this background, the division delivered another strong underwriting performance, achieving a combined ratio of 78% (2013: 72%) on premiums of $325.2m (2013: $315.9m).

We saw the strongest competition for hull, cargo and energy business. Low claims in all three sectors have meant that the market has continued to soften into 2015 with premium rates for hull business at the beginning of this year continuing to fall, following rate declines of 4% in 2014. In the cargo market, the declines were aggravated by falling commodity prices, particularly for oil.

Maritime trade was not particularly buoyant in 2014, but it has nevertheless risen steadily in recent years with only one dip in 2009. Beazley insures most of the world's major shipyards that build the ships to cater to this demand, and this marine construction insurance business performed well for us in 2014.

In recent years, offshore energy business has been a growing component of our diversified portfolio, accounting for 37% of the division's premiums in 2013. Last year competition for this business was particularly intense with rates at renewal falling by an average of 10%. Our energy team led by Matt Holmes continued to find attractive risks in this very difficult market, but the book contracted by 18% to $94.7m.

Marine war risks business continued to be impacted by the low level of claims from ships frequenting what were formerly the very dangerous waters off the Horn of Africa. Tight security measures are now routinely adopted by vessels in this area and these have proved an effective deterrent to any pirates.

The story in the aviation war risks market is very different, with losses in 2014 equivalent to almost ten years' premium for this entire market. Rates initially rose steeply but the rate rises soon abated, and the knock-on effect on the broader aviation market has been negligible. In this highly competitive market, with rates at historically low levels, we adopted a cautious approach, writing $25.4m in aviation business (both all risks and war risks), down from $28.7m in 2013.

In 2014 we began underwriting satellite business, hiring Denis Bensoussan to develop our presence in this market. Denis joined Beazley in March and wrote $8.7m in the remainder of the year: we plan to increase this modestly to $9m in 2015. Launch failures including the Proton M/AM4R satellite in May and the Antares cargo module being sent to the International Space Station in October, meant that the market is barely breaking even but this is a line of business that, over time, repays shrewd underwriting, and Denis is a shrewd and knowledgeable underwriter.

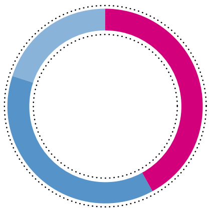
Our underwriters maintain a healthy focus on short term profitability but we also know that in some areas long term investments are required. For some years now Steve Smyth has been building a profitable business for us in the UK, insuring cargo risks sourced by brokers around the country. Steve will be making good use of his excellent broker relationships in the months ahead to broaden our UK portfolio to include pleasure crafts and yachts.

Political risks & contingency

The political risks & contingency division now has underwriters in six countries: the UK, the US, France, Australia, Singapore and the United Arab Emirates.

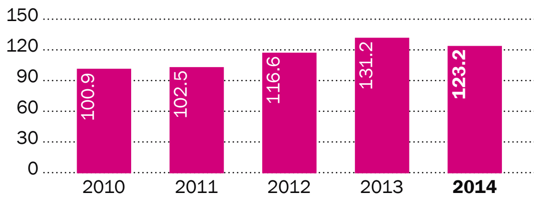
Adrian Lewers
Head of political risks & contingency

Portfolio mix



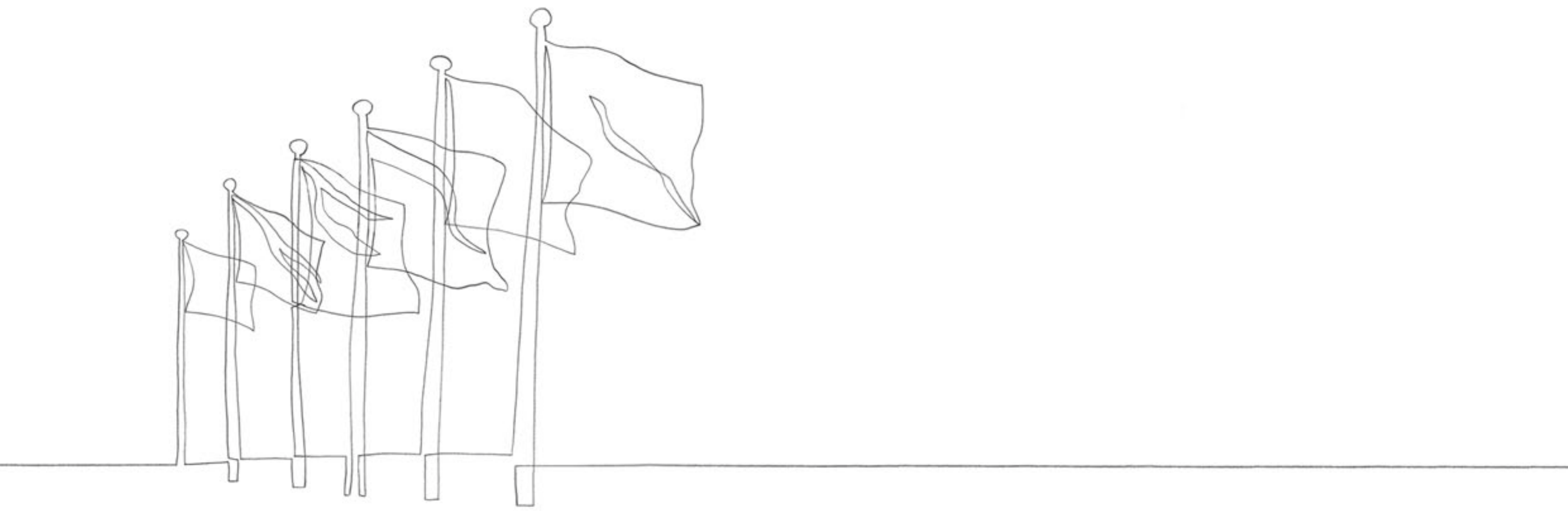
Political	42%
Terrorism	38%
Contingency	20%

Gross premiums written ($m)



$123.2m

Gross premiums written



The political risks & contingency division delivered good profitability in 2014, achieving a combined ratio of 78% (2013: 50%) on gross premiums of $123.2m (2013: $131.2m).

The division focuses on three areas of business: political risks and trade credit; terrorism and political violence; and contingency. More than two thirds of our contingency business is event cancellation: Beazley insures some of the world's largest sports and entertainment events as well as a wide range of smaller events and trade shows. In common with other Beazley teams, we tend to write the largest risks in our various specialist fields at Lloyd's, but we have a growing international presence to develop business that we would not normally see in London.

In recent years, we have seen a significant influx of new capacity into the political risks market, both at Lloyd's syndicates and at insurance companies. The year was relatively uneventful from a claims perspective and, although this doubtlessly played a role in attracting new capacity to the market, combined with favourable developments on prior years, it also enabled us to make reserve releases of $20.1m in 2014.

We write trade credit business through Equinox Global, a specialist Lloyd's coverholder. Equinox grew significantly in 2014, opening offices in the Netherlands and New York and expanding the number of carriers supporting its binding authority, which Beazley continues to lead by providing 31% of the capacity. In 2014 our share of the business underwritten through Equinox was $3.1m (2013: $2.6m).

One line of business that has shown steady softening over many years is terrorism. This business has accordingly shrunk as a proportion of our total portfolio, from 43% in 2012 to 38% last year. We still see profitable underwriting opportunities in this market but there is intense competition to participate on the broker panels that many brokers are assembling to cover this risk.

As well as insuring terrorism risks for property owners, our team also underwrites political violence risk to protect businesses active in volatile parts of the world. Events in Ukraine, Russia and the Middle East continued to spur demand for this cover in 2014. We also expanded our terrorism team in New York, hiring two underwriters in April to help cater to the needs of US clients who wish to buy cover locally.

Our third team, contingency, maintained their leading position in the London market whilst growing the overseas offices. Lloyd's contingency underwriters have long enjoyed a reputation for innovation and the Beazley team is no exception. In addition to insuring events, large and small, against cancellation the team also insures businesses against the impact of poor weather on their revenues. Beazley Weather Guard, the product through which we provide this cover, has also proved popular in the US, where the contingency team established a local underwriting presence in 2012: we expanded this team, based in Philadelphia, last year.

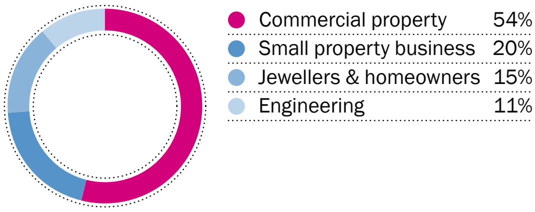
The political risks & contingency division now has underwriters in six countries: the UK, the US, France, Australia, Singapore and, most recently, the United Arab Emirates, where we opened a Dubai office in November to focus initially on providing local underwriting skills in our products. We will continue to develop our global network carefully to take advantage of attractive growth opportunities that cannot be captured by our underwriters at Lloyd's.

Property

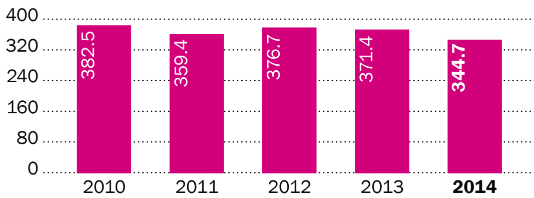
The past five years have seen significant diversification in Beazley's property business, which proved its worth in 2014.

Mark Bernacki
Head of property

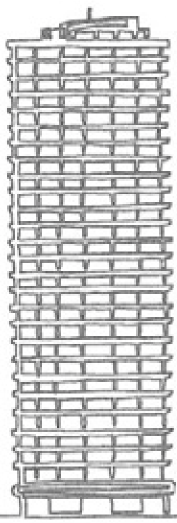
Portfolio mix



Gross premiums written ($m)



$344.7m
Gross premiums written



Beazley's property division, performed strongly in 2014, delivering a combined ratio of 86% (2014: 84%) on gross premiums written of $344.7m (2013: $371.4m), despite strong competitive pressures in our large risks business.

Our claims experience in 2014 was relatively quiet, with a lower than normal incidence of catastrophe claims. An exception was Hurricane Odile, which hit the peninsula of Baja California in Mexico in September as a category 3 storm, causing significant damage: net claims to Beazley are likely to be in the region of $12.5m.

The past five years have seen a significant diversification in Beazley's property business. In 2009, large risks business underwritten by our open market commercial property team in London accounted for 38% of our total portfolio; this year its share was 28%. This diversification proved its worth in 2014 as rate pressures intensified for large commercial property risks. We accordingly reduced this book by 4% in 2014 to $96.8m while growing in other areas.

Today, our well diversified commercial property portfolio comprises books of large, mid sized and small scale risks. Alongside this, we insure large scale construction and engineering risks in London and Singapore, and small scale construction risks in the US (a line of business known locally as builders' risk). Finally, we have two relatively modest books of homeowners' insurance business in the UK and US.

Although our large risks underwriters at Lloyd's were circumspect about the business they underwrote in 2014, our long term commitment to this business remains very strong. In July we announced that Simon Jackson and John Brown, two of the Lloyd's market's most respected property underwriters, would be joining us in 2015, and that Simon would be succeeding Jonathan Gray as head of the open market property team when Jonathan leaves Beazley in June this year. Jonathan's contribution to the property division, which he founded in 1992, and to Beazley is inestimable, but we are pleased that he leaves the company's open market property business in very good hands.

We saw strongest growth in 2014 in the small scale business that we access predominantly from Lloyd's coverholders around the world. Our small business unit, led by Paul Bromley, saw gross premiums rise by 3% to $120.3m, fuelled by larger line sizes offered to our coverholders.

Binding authorities granted to trusted US coverholders are an important means by which Lloyd's underwriters have been able to access small scale property business from around the world. Paul and his team have built up strong coverholder relationships over many years: they are not confined to the US and we also saw our Swiss coverholders book expand materially in 2014. In addition, we continue to be the leading market for UK jewellers' block insurance. We expect continued growth in the small business segment as a whole as rate levels are holding firmer than for other lines and we continue to invest in underwriting skills.

Business underwritten by our construction & engineering team continued to grow steadily in 2014, with our builders' risk business in the US boosted by the continuing recovery of the local economy. To help capture this growing demand, we have recently launched two new products catering for the needs of building contractors. For major international construction and engineering risks, we have continued to see benefits from the establishment of the Construction Consortium at Lloyd's, which we co-founded with three other Lloyd's insurers in 2013. The consortium enables us to compete head to head with the world's largest insurers of construction risks: in September we extended the consortium to operate from the Lloyd's Asia platform in Singapore.

Looking forward, we expect market conditions to become more challenging, but our underwriters' skills in risk selection combined with the flexibility permitted by our diverse portfolio should enable us to continue to provide a strong contribution to the company's performance.

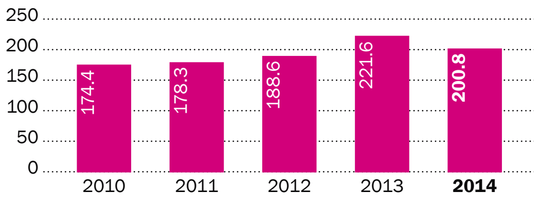
Reinsurance

We have been developing our presence in both mature markets, such as Munich, and developing markets, such as Singapore and Latin America.

Patrick Hartigan
Head of reinsurance

Portfolio mix

Gross premiums written ($m)



$200.8m
Gross premiums written

Strong long term relationships with cedents sustained our reinsurance division in 2014 but an increasingly competitive market nevertheless took its toll with premium rates falling 10%. Against this background the division performed well, achieving a combined ratio of 69% (2013: 49%) on premiums of $200.8m (2013: $221.6m).

Over the past two years we have scaled down our exposure to the US market, relative to other territories. US business, which has been most affected by the influx of investment from pension funds and other non traditional capital providers, now accounts for 50% of the division's premiums, down from 53% two years ago. Helping to redress the balance, we have seen business grow in a variety of markets, including South Korea, Colombia and Chile.

Overall, claims developed favourably in 2014, except for some deterioration in the New Zealand earthquake loss, and we were able to release $27.8m in reserves previously set aside to cover prior year claims.

London remains the world's biggest reinsurance market, accounting for an estimated 13% of global reinsurance business in 2013, according to research published by the London Market Group in November last year.

Wherever we operate, Beazley's strategy has been to focus on long term client relationships, providing tailored protection to our cedents whenever possible, including cover in risk areas that cannot easily be modelled such as flood and hail. This differentiates us from the more commoditised peril-specific capacity available to cedents through insurance linked securities. We have also been developing our presence in reinsurance hubs in both mature markets, such as Munich, and developing markets, such as Singapore and Latin America. In aggregate, the reinsurance business we underwrote outside London in 2014 rose 5% and now accounts for 17% of the division's total premiums.

The year also marked the first full year in business of our Miami office, opened in July 2013. Miami continues to develop as a regional reinsurance hub for business from across Latin America and Paul Felfle, our local underwriter, wrote $4.7m of business in 2014.

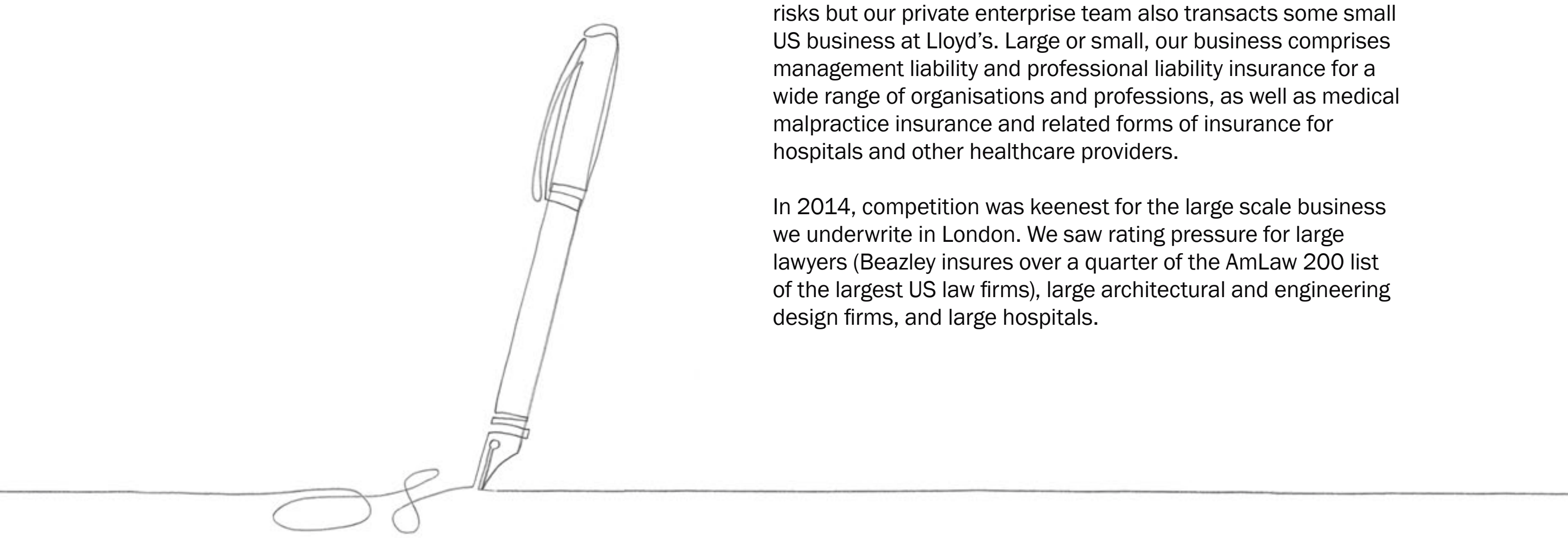
In Singapore, we welcomed Chris Kwon who joined us in March. Chris has been particularly successful in developing South Korean business for Beazley. We underwrote $10.8m of premium in Singapore in 2014, more than double that of 2013.

Specialty lines

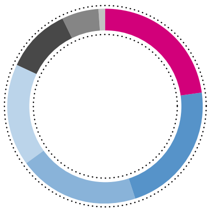
Margins were significantly more attractive in 2014 for the smaller scale business that we underwrite predominantly in the US.

Adrian Cox
Head of specialty lines

For the second year running, specialty lines, Beazley's largest division, saw strong growth, writing gross premiums of $895.7m (2013: $829.8m). Stable premium rates on renewal business helped this growth but the strongest impetus derived from the attractiveness of our specialist products to clients in the United States, our biggest market, which accounted for more than 80% of the division's business.

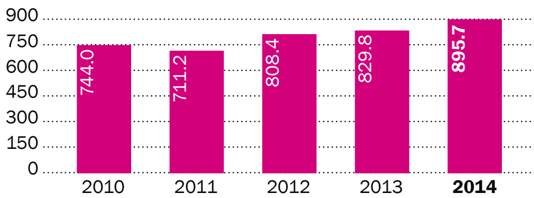


Portfolio mix



Technology, media & business services	23%
Management liability	22%
Small businesses	20%
Professions	17%
Healthcare	11%
Treaty	6%
Crime	1%

Gross premiums written ($m)



$895.7m
Gross premiums written

We underwrite US business in two ways: locally through our network of ten US offices, and at the Beazley box at Lloyd's. Lloyd's is well known for the insurance of large and complex risks but our private enterprise team also transacts some small US business at Lloyd's. Large or small, our business comprises management liability and professional liability insurance for a wide range of organisations and professions, as well as medical malpractice insurance and related forms of insurance for hospitals and other healthcare providers.

In 2014, competition was keenest for the large scale business we underwrite in London. We saw rating pressure for large lawyers (Beazley insures over a quarter of the AmLaw 200 list of the largest US law firms), large architectural and engineering design firms, and large hospitals.

By contrast, margins were significantly more attractive for the smaller scale business that we underwrite predominantly in the US, writing $175.6m of premium during the course of the year. We celebrated the tenth anniversary of our US operations in the summer and it is clear from our interactions with US retail and wholesale brokers that our contribution to the local market is now both well understood and highly valued.

We saw particularly strong growth in 2014 in our miscellaneous medical business, led by Evan Smith in Chicago. This covers a wide array of healthcare-related risks, including contract research organisations for clinical trials, blood and tissue banks, home health providers, medi-spas, dialysis clinics, and ground and air ambulances. This business is attractive to us as it requires considerable expertise to underwrite, which Evan and his team possess, and is often hard for brokers to place therefore valuing the service we provide.

Healthcare services account for almost 18% of US gross domestic product, more than in any other developed economy but as populations age and medical science advances, the healthcare sector is growing elsewhere too. Beazley is well positioned to take the knowledge and skills we have acquired in the US and apply them to underwrite healthcare risks elsewhere. For instance Nat Cross, the head of our global healthcare team, has developed a unique partnership approach with US hospital clients to reward them, through premium rebates, for advances in patient quality and safety. We see this as potentially attractive to hospitals outside the US as well.

Our fastest growing product in 2014, as it was the previous year, was Beazley Breach Response (BBR), our solution to a risk that has recently provoked increasing concern following a series of high profile hacking attacks on large retailers. BBR is designed to meet the needs of small and mid sized businesses and we were not directly exposed to most of the large scale breaches that occurred last year, although it is likely that the publicity surrounding them boosted demand for our product.

BBR provides a combination of first party services – the services that organisations need to track down the causes of data breaches, comply with all relevant laws and regulations, and reassure customers – and third party liability insurance. In recent years our claims team has developed valuable expertise in defending clients against third party class actions stemming from data breaches: in 2014, we helped two California hospital clients defeat lawsuits that could have cost them in aggregate more than $4.5bn.

We continue to see great interest in BBR from brokers and clients outside the United States. The volumes of personal client data that companies hold is comparable in all developed economies and the reputational damage that a breach can cause if mishandled is a global concern. However, the stringent regulations that require US organisations to report breaches to affected individuals have yet to be replicated outside the US; we expect demand for the cover to grow significantly when this happens, starting with the European Union.

Another important area of focus for us in 2014 was reducing the frictional costs of transacting small business to make Beazley a more attractive partner for brokers that serve these clients. In France and the UK, our private enterprise team launched MyBeazley.com, an online trading platform for brokers that gives them instant access to a range of innovative Beazley products tailored for the needs of small businesses. The system also enables brokers to invite clients to name their price for insurance, calculating in real time the cover available for the price selected.

The MyBeazley.com platform is an example of process innovation at Beazley but we have also been very active in developing and commercialising new products. Beazley is well known in the Lloyd's market and increasingly in the US and further afield as an innovative insurer that can be relied upon to develop well designed products to address new and emerging risks. We have launched a succession of such products in fields such as transaction liability insurance and environmental risks. The lines of business, together with other niche products such as management liability cover for healthcare organisations, grew strongly last year.

Management liability, comprising directors and officers (D&O) insurance, employment practices liability (EPL) and transaction liability cover (sometimes known as reps and warranties insurance), accounted for over 20% of our total portfolio in 2014. After the financial crisis, we reduced our EPL underwriting significantly in expectation of an uptick in claims associated with the recession. Claims experience has now normalised and, as a result, we are growing this book again.

Looking ahead, our strategy is to consolidate our expanded footprint in the US; to further develop our current approach to distribution, by working in a more coordinated way with a smaller number of brokers; and to continue to invest in products where our specialisation and expertise have value and where we are serving growing markets.

Financial review

Group performance

During the year we delivered a very strong performance with a return on average shareholders' equity of 17%.

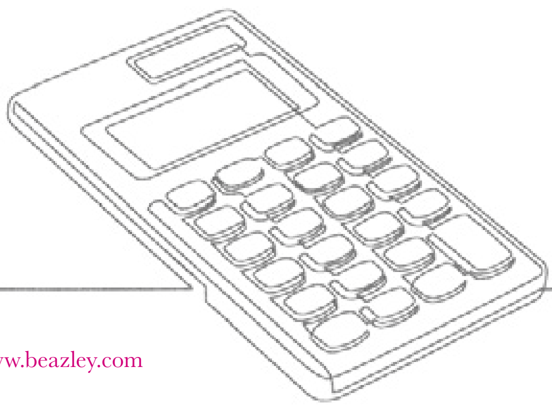
Martin Bride
Finance director

Statement of profit or loss

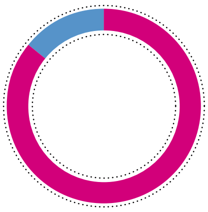
	2014 $m	2013 $m	Movement %
Gross premiums written	2,021.8	1,970.2	3%
Net premiums written	1,732.7	1,676.5	3%
Net earned premiums	1,658.9	1,590.5	4%
Net investment income	83.0	43.3	92%
Other income	26.6	36.4	(27%)
Revenue	**1,768.5**	**1,670.2**	**6%**
Net insurance claims	817.9	719.1	14%
Acquisition and administrative expenses	658.9	619.3	6%
Foreign exchange loss	12.3	3.0	
Expenses	**1,489.1**	**1,341.4**	**11%**
Share of loss of associates	(1.1)	(0.3)	
Finance costs	(16.4)	(15.2)	
Profit before tax	**261.9**	**313.3**	**(16%)**
Income tax expense	(44.1)	(49.3)	(11%)
Profit after tax	**217.8**	**264.0**	**(18%)**
Claims ratio	49%	45%	
Expense ratio	40%	39%	
Combined ratio	89%	84%	
Rate (decrease)/increase	(2%)	1%	
Investment return	1.9%	1.0%	

Profit

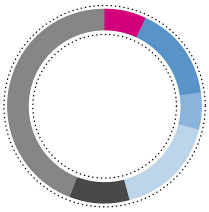
Profit before tax is down 16% in 2014 to $261.9m (2013: $313.3m). There are two significant performance differences between the two years. Firstly, the combined ratio, whilst still very good at 89%, is 5% higher than the exceptional result achieved in 2013. As explained in the reserve releases section on page 42, all the difference in combined ratio was driven by the above average prior year reserve releases in 2013. This change in the combined ratio, coupled with a slightly higher FX impact, reduced profits by about $80m, although this was partially compensated by achieving about $30m more investment and other income than in 2013.



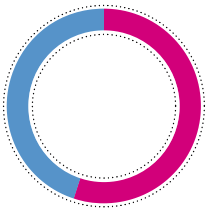
Insurance type



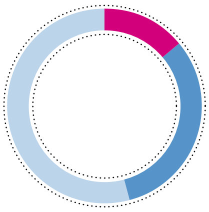
Business by division



Premium written by claim settlement term



Geographical distribution



Premiums

Gross premiums written have increased by 3% in 2014 to $2,021.8m. Rates on renewal business on average decreased by 2% across the portfolio. We have continued to adjust our underwriting appetite in areas where competition is most intense.

Our portfolio by business division has remained broadly unchanged from 2013. We continue to operate a diversified portfolio by type of business and geographical location, and have grown our business across three of the six divisions during 2014.

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

Reinsurance purchased

Reinsurance is purchased for a number of reasons:

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

The amount the group spent on reinsurance in 2014 was $289.1m (2013: $293.7m).

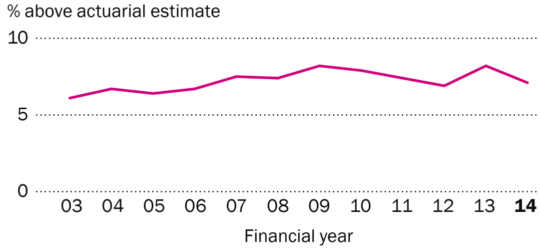
Combined ratio

The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio has increased in 2014 to 89% (2013: 84%), maintaining our five year historic average of 90%. It is worth pointing out that the calculation of the combined ratio for Beazley includes all claims and other costs to the group but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Financial review *continued*

Group performance continued

Whole account reserve strength within our target range (%)



Claims

Overall, claims have developed favourably during 2014, with claims notifications at normalised levels. There has been minimal exposure to natural catastrophes throughout the year, with a small exposure to Hurricane Odile seen on the property and reinsurance books.

Reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 7.1% at the end of 2014 (2013: 8.2%). This margin has remained stable over time and is a lead indicator for the sustainability of reserve releases. It is, however, important to recognise that claims reserve uncertainty is the most significant risk within Beazley and a positive lead indicator will not always equate to future releases.

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

Prior year reserve adjustments across all divisions over the last five years are show below:

	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	5 year average $m
Life, accident & health	(1.3)	4.5	0.5	(4.6)	4.4	0.7
Marine	30.7	39.9	27.7	47.3	40.2	37.2
Political risks & contingency	18.8	22.1	33.1	39.4	20.1	26.7
Property	17.4	20.2	6.2	33.7	35.9	22.7
Reinsurance	22.1	38.0	7.0	55.6	27.8	30.1
Specialty lines	56.9	61.8	51.5	46.6	29.7	49.3
Total	**144.6**	**186.5**	**126.0**	**218.0**	**158.1**	**166.6**
Releases as a percentage of net earned premium	10.3%	13.5%	8.5%	13.7%	9.5%	11.1%

The reserve releases in 2014 totalled $158.1m. There was an overall reduction in reserve releases in 2014 compared to 2013. This was driven by the political risks & contingency, reinsurance and specialty lines divisions. The 2013 reserve releases in reinsurance benefited from an incredibly benign year, superstorm Sandy aside, whilst the equivalent release during 2014 was affected by the mid sized catastrophes of 2013, a number of individual risk losses and adverse development on the New Zealand earthquake loss.

Reserve releases decreased in specialty lines in 2014, which was in line with our expectations. The 2014 releases came mainly from the 2003 through 2006 underwriting years as these years continued their exceptional development. Additionally, releases were seen on the 2012 underwriting year, with favourable development being recognised on the short tail cyber classes.

The political risks & contingency reserve releases of 2013 benefitted from favourable development on our financial crisis-exposed 2006-2008 underwriting years and in addition the release of catastrophe margin during 2014 were lower than the recent past due to the terrorist attack in Nairobi in September 2013.

Please refer to the financial statements for information on reserve releases and loss development tables.

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2014 to $658.9m from $619.3m in 2013. The breakdown of these costs is shown below:

	2014 $m	2013 $m
Brokerage costs	349.7	337.2
Other acquisition costs	91.5	94.3
Total acquisition costs	**441.2**	**431.5**
Administrative expenses	217.7	187.8
Total acquisition costs and administrative expenses	**658.9**	**619.3**

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

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

Administrative expenses comprise primarily personnel costs including variable incentives for all staff, IT costs, facilities costs, Lloyd's central costs and other support costs. These have increased more than our gross premiums written over a five year period and, as a consequence, the company's expense ratio has edged upwards by 1% per annum from 36% to 40%. The main causes of this are an increase in both long term and short term incentive payments triggered by the company's outstanding success during this period, investment in Solvency II and investment in our infrastructure aimed at securing future growth. We manage underlying costs tightly and target growing expenses less than the top line over the medium term.

Foreign exchange

The majority of Beazley's business is transacted in US dollar which is the currency we have reported in since 2010 and the currency in which we hold the company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and the majority of our staff still receive their salary in sterling. Part of this impact, generated by IFRS's treatment of the unearned premium reserve as a non-monetary item, is purely timing with FX profits and losses which unwind in the subsequent period. Beazley's FX loss taken through the profit and loss in 2014 was $12.3m (2013: $3.0m).

Investment performance

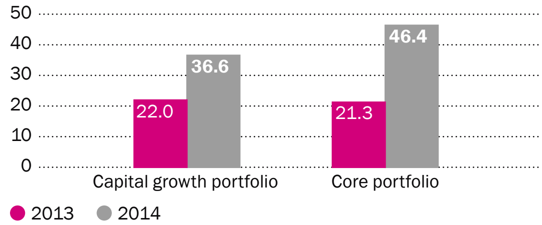
Investment income for the year ended 31 December 2014 was $83.0m, or an annualised return of 1.9%, compared with $43.3m or 1.0% over the same period in 2013. In 2014 the portfolio benefited from falling yields in all regions where we have significant fixed rate exposure, i.e. the US, UK and especially in Europe – where yields fell to record low levels across the curve. Our credit investments also contributed positive performance, benefiting from the fall in yields, even though investment grade and high yield credit spreads widened during the course of the year. Our hedge funds with uncorrelated strategies were also a significant contributor to returns.

During the year our management of core fixed income assets transferred from Falcon Money Management to an in house team. This portfolio, comprising AAA/AA Government and Agency bonds, returned 1.3% in 2014, generating strong returns in Europe and positive results in the US and the UK as yields fell and curves flattened. The other element of the core portfolio, credit, is outsourced to four managers and generated a 1.4% return. The credit assets are predominantly investment grade, including a small allocation to investment grade emerging market corporates, but also include small exposures to high yield and senior secured loans. Cash assets, totalling 8.2% of the portfolio, generated a 0.2% return.

Financial review *continued*

Group performance continued

Comparison of returns – major asset classes ($m)



The remaining elements of the portfolio – equal to approximately 14% of the total – consist of funds with an equity component (3%); hedge funds with uncorrelated strategies (8%) and illiquid credit (1%). We continue to work with Falcon Money Management on this section of the portfolio where we have set a target allocation of being equally distributed between the three sub-strategies.

The weighted average duration of our fixed income portfolio (including cash, government bonds and credit investments) at the end of 2014 was 1.8 years (2013: 1.8 years).

We are cautious about the outlook for investment returns in 2015 which will be limited by extremely low yields across the curve, and, in some cases even negative yields at shorter durations.

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

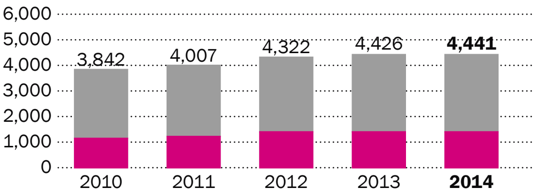
	31 Dec 2014 $m	31 Dec 2014 %	31 Dec 2013 $m	31 Dec 2013 %
Cash and cash equivalents	364.2	8.2	382.7	8.6
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	1,845.6	41.6	1,892.2	42.7
– Corporate bonds				
– Investment bonds	1,111.5	25.0	1,268.4	28.7
– High yield	80.1	1.8	–	–
– Syndicated bank loans	101.5	2.3	–	–
– Asset backed securities	378.6	8.5	362.3	8.2
Derivative financial instruments	1.3	–	4.4	0.1
Core portfolio	3,882.8	87.4	3,910.0	88.3
Equity linked funds	145.9	3.3	139.7	3.2
Hedge funds (uncorrelated strategies)	367.0	8.3	369.8	8.4
Illiquid credit assets	45.9	1.0	6.8	0.1
Total capital growth assets	558.8	12.6	516.3	11.7
Total	**4,441.6**	**100.0**	**4,426.3**	**100.0**

Comparison of return by major asset class:

	31 Dec 2014 $m	31 Dec 2014 %	31 Dec 2013 $m	31 Dec 2013 %
Core portfolio	46.4	1.2	21.3	0.5
Capital growth assets	36.6	6.8	22.0	4.7
Overall return	**83.0**	**1.9**	**43.3**	**1.0**

In 2014, the funds managed by the Beazley group remained in line with the prior year, with financial assets at fair value and cash and cash equivalents of $4,441.6m at the end of the year (2013: $4,426.3m). The chart above on page 45 shows the increase in our group funds since 2010.

Beazley group funds ($m)



● Group funds including funds at Lloyd's
● Syndicates 2623, 3623 and 3622
Figures are taken from December of each year

Tax

Beazley is liable to corporation tax in a number of jurisdictions, notably the UK and Ireland. Our effective tax rate is thus a composite tax rate between the Irish and UK tax rates. Our effective tax rate for the year was 16.9% (2013: 15.7%).

In 2013, it was announced that the UK corporation tax rate will be reduced to 20% by 2015. This rate reduction in the UK tax rate has been applied to our UK deferred tax balance brought forward.

Summary statement of financial position

	2014 $m	2013 $m	Movement %
Intangible assets	94.6	91.6	3%
Reinsurance assets	1,053.2	1,178.2	(11%)
Insurance receivables	587.0	617.7	(5%)
Other assets	266.3	270.8	(2%)
Financial assets at fair value and cash and cash equivalents	4,441.6	4,426.3	–
Total assets	**6,442.7**	**6,584.6**	**(2%)**
Insurance liabilities	4,547.4	4,577.3	(1%)
Financial liabilities	256.8	274.9	(7%)
Other liabilities	295.8	393.7	(25%)
Total liabilities	**5,100.0**	**5,245.9**	(3%)
Net assets	**1,342.7**	**1,338.7**	–
Net assets per share (cents)	**265.7c**	**266.5c**	–
Net tangible assets per share (cents)	**247.0c**	**248.3c**	**(1%)**
Net assets per share (pence)	**170.3p**	**160.6p**	**6%**
Net tangible assets per share (pence)	**158.3p**	**149.6p**	**6%**
Number of shares*	**505.3m**	**502.2m**	**1%**

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

Financial review *continued*

Balance sheet management

Intangible assets

Intangible assets consist of goodwill on acquisitions of $62.0m, purchased syndicate capacity of $10.7m, US admitted licences of $9.3m and capitalised expenditure on IT projects of $12.6m.

Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $860.7m, and the unearned reinsurance premiums reserve of $192.5m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $195.0m and an actuarial estimate of recoveries on claims that have not yet been reported of $665.7m. The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail). The chart on page 47 shows the profile of these assets (based on their S&P rating) at the end of 2014;
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by our reinsurance security committee and credit control committee.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2014 our provision had reduced to $14.1m (2013: $14.5m) in respect of reinsurance recoveries, following a partial recovery during the year in relation to Lehman Re.

Insurance receivables

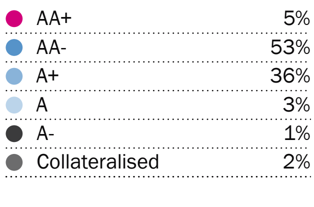
Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2014 was $587.0m, a decrease of 5% compared to 2013 ($617.7m). We continue to outsource the majority of the collection of our Lloyd's broker premium balances to Randall and Quilter Investment Holdings plc, which operates within the Lloyd's market as a specialist credit controller, the remainder of the balances are controlled and monitored internally.

Other assets

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

- deferred acquisition costs of $222.7m;
- profit commissions of $11.4m and other balances of $7.3m receivable from syndicate 623; and
- deferred tax assets available for use against future taxes payable of $9.0m.

Reinsurance debtor credit quality



Insurance liabilities

Insurance liabilities of $4,547.4m consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our UPR has increased by 7% to $1,022.5m. The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid of $984.7m and an estimate of claims incurred but not yet reported (IBNR) of $2,540.2m. These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have decreased by 3% to $3,524.9m.

Financial liabilities

Financial liabilities comprise borrowings and derivative financial liabilities. The group utilises three long term debt facilities:

- in 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that is payable in 2026 and callable in 2016. In 2013 we bought back £26.2m of this debt. The initial interest rate payable is 7.25% and the nominal value of this debt as at 31 December 2014 is £76.5m (2013: £76.5m);
- a US$18m subordinated debt facility raised in 2004. This loan is also unsecured and interest is payable at the US$ London interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009; and
- during September 2012 we issued a sterling denominated 5.375% retail bond under a £250m euro medium term note programme which raised £75m for the group and is due in 2019. This diversified the source and maturity profile of the group's debt financing.

A syndicated short term banking facility led by Lloyds Banking Group Plc provides potential borrowings up to $225m. Under the facility $225m may be drawn as letters of credit to support underwriting at Lloyd's. Of this, $175m may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.6% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will expire on 31 December 2016, whilst letters of credit issued under the facility can be used to provide support for the 2013, 2014 and 2015 underwriting years. The facility is currently unutilised.

Financial review *continued*

Capital structure

Capital structure

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

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

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

Beazley holds a level of capital over and above its regulatory requirements. The amount of surplus capital held is considered on an on going basis in light of the current regulatory framework, (and expected changes in regulation, i.e. Solvency II) and opportunities for organic or acquisitive growth and a desire to maximise returns for investors.

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

In 2014, Beazley acquired 3.1m of its own shares into the employee benefit trust. These were acquired at an average price of 245.0p and the cost to the group was £7.5m.

The following table sets out the group's sources of funds:

	2014 $m	2013 $m
Shareholders' funds	1,342.7	1,338.7
Tier 2 subordinated debt (2026)	122.5	132.1
Retail bond (2019)	115.8	123.0
Long term subordinated debt (2034)	18.0	18.0
	1,599.0	**1,611.8**

Our funding comes from a mixture of our own equity (on a Solvency II basis) alongside $122.5m of tier 2 subordinated debt, $18.0m subordinated long term debt, a $115.8m retail bond and an undrawn banking facility of $225.0m.

The following table sets out the group's capital requirement:

	2014 $m	2013 $m
Lloyd's economic capital requirement (ECR)	1,359.0	1,321.8
Capital for US insurance company	107.7	107.7
	1,466.7	**1,429.5**

At 31 December 2014, we have surplus capital of 30% of ECR, including expected Solvency II adjustments. We will therefore be paying a special dividend of 11.8p, reducing the surplus to 20% which is within our current target range 15% to 25% of ECR.

Individual capital assessment

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

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

- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that 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.

Solvency II

It is now confirmed that the Solvency II regime will be implemented from 1 January 2016, with the passing of the Omnibus II Directive by the European Parliament in 2014. We welcome this definitive start date and, while some final detail of requirements remains to be confirmed, we believe that we are strongly positioned for full compliance. Beazley's programme to prepare for Solvency II began in 2008 and will remain in place through to completion.

Beazley, having indicated to the Central Bank of Ireland (CBI) the intention to seek approval to calculate the Solvency Capital Requirement using a group internal model, has been engaging with the CBI in a pre-application review. This was materially completed in 2014 and we are on track to submit a formal application for approval at the earliest opportunity, in April 2015.

During 2014, Beazley has continued to benefit from participation in the Lloyd's Solvency II programme and the use of the internal model for Lloyd's capital setting has been a strong driver for the embedding of the model into business as usual.

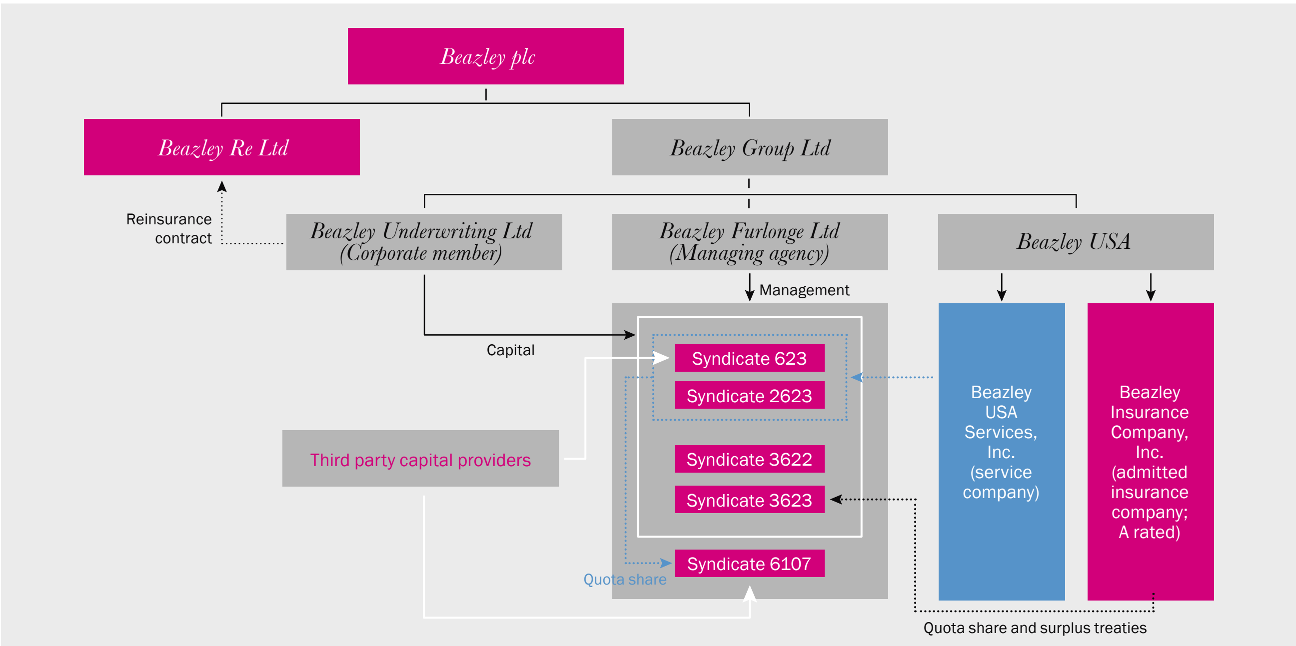
Financial review *continued*

Capital structure continued

Group structure

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

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



Operational update

Our strength and depth of operations experience is a competitive advantage.

Ian Fantozzi
Chief operating officer

Beazley has seen significant premium growth over the last ten years, and we have developed a diversified underwriting portfolio that distributes globally, through 25 offices. To support this growth we have developed a scalable and efficient operating platform that through focused investment has become an important competitive advantage. Differentiators have been our ability to deliver products more quickly to market whilst maintaining a high quality, responsive service to our brokers.

Much of this can be attributed to the high level of experience that we have built within our global operations team. When providing support services or delivering large projects, we know what works and what does not. The operations team and the underwriting teams have developed strong working relationships over the years, and collectively we have developed considerable expertise in bringing new products and distribution channels to fruition.

We have been able to deliver excellent support for our business through the way we maintain consistency in operational standards throughout the group. This ranges from the Beazley look and feel across all our offices, to the rigour with which our systems capture accurate data to provide insightful reporting to support business decisions. In order to achieve this, we continue to focus on our operations strategy. This spans five areas of focus:

Supporting growth initiatives

Beazley has four strategic growth initiatives – at Lloyd's, in the US, in Europe, and in Asia Pacific. In all of these platforms we have continued to build our infrastructure so that we can bring attractive new products to market as efficiently as possible. Contingency WeatherGuard and Clinical Trials Biosecure are examples of two such new types of insurance products that we launched in 2014. We are also exploring new ways to deliver our specialist products to market with the launch of the MyBeazley.com electronic trading platform to service the SME market in the UK and France. We also implemented a new online quotation tool to further distribute our Beazley Breach Response product in the US market.

Supporting business growth relies on effective processes and systems, but it is also important that we have a high quality working environment that is conducive to team working and thought leadership. Our offices are open plan, bright and airy with a style and consistency that supports our global brand. We strive to get the best quality working space at the best lease and facility cost. In 2014, we opened new offices in Dubai and Dallas, further improving market access for our underwriters geographically. We also invested further in our processing and support centre based in Connecticut, US – which is a location that benefits from good access to local insurance operations talent.

Ensuring sustained profitability

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

In pursuit of greater efficiency and consistency of operational service we have been centralising operations support or outsourcing where this brings further value. We want to make sure that operations and processing are performed by appropriately skilled people, at the most cost effective location, whilst providing the best service levels.

This year we significantly increased the amount of process automation in our back office particularly for our higher volume products in the US – an area where we are seeing healthy business growth. Our investment in process automation is key to supporting increased transaction volumes and revenue, without having to scale up our expense base unduly.

Operational update *continued*

Operating within our agreed risk appetite

Effective risk management requires clear visibility of the level of operational risk we maintain. Critical to supporting an effective control environment is consistency of ownership for operations support and the provision of management information.

As we continue to make our operational support more efficient, we have defined clear ownership for processes, establishing clear accountability for process execution and planning. This simplifies operational control reporting and strengthens our ability to provide a coordinated, rapid response to supporting business growth opportunities.

With each year, we transact more business electronically in our markets. This brings greater efficiency but also places more emphasis on the need to have a scalable and resilient technology infrastructure. In 2014, we upgraded our global IT network infrastructure to ensure continued high performance as electronic transactions increase.

Enabling product and service innovation

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

A continuing focus for us has been strengthening our ability to take new product ideas more quickly from the drawing board to the underwriting stamp. We have built dedicated teams in both London and the US to coordinate the product innovation process, and then to bring all the operational components together for a successful market launch.

In 2014, we completed the upgrade of our IT infrastructure to thin client technology for all our offices which allows us to more efficiently manage our software centrally and scale our global IT infrastructure. It also means that our employees can access our business applications and management information from mobile and tablet devices – proving especially useful to our underwriters and claims managers whilst out in the field.

Beazley Intelligence, our strategic data warehouse solution, grows in value each year. We can now provide reports and detailed analysis on business written across all our platforms globally. In combination with data gathered through our global claims system and our customer relationship management system, we are able to gain valuable insight into trends within our business and have the data at hand to support business decisions.

Managing for performance

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

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

Looking ahead

We place great importance on maintaining consistency in our approach to delivering high quality service and continually improving operational efficiency. The above five areas are core to our operational strategy, and we have a highly experienced operations team to deliver them – creating competitive advantage through operational service provision and in our ability to react quickly and efficiently to new business opportunities.

Risk management

Maintaining clarity.

Andrew Pryde
Chief risk officer

2014 in review

Risk management frameworks continue to evolve across the insurance industry. Although implementation varies according to level of sophistication and complexity, the fundamental purpose is identical; to ensure that a business is well run.

Beazley's risk management framework, which has been in operation in its current design since 2010, continues to operate effectively providing clear, timely and trusted risk information to the boards. Whilst it has continued to evolve, there have been no major changes to the framework in 2014. When we have explored adding complexity to the design, we have found that the clarity of reporting deteriorates, which would reduce the main benefit to the board.

As at 31 December 2014, all entities in the Beazley group are within risk appetite and there are sufficient financial resources and personnel to deliver the group's business plan.

The enterprise-wide implementation of the framework helps the board maintain oversight of the risks and opportunities from continued investment across the group, such as growth in our US operations. To support this we have two experienced risk managers located in the US, who travel regularly to our US offices to help the business identify and manage their risks and ensure that our culture of risk awareness is cascaded and maintained. In 2014, we reviewed the potential risks associated with our infrastructure to ensure that, although they don't currently present a problem, they don't become an emerging risk over time as the business continues to grow.

The risk team have produced a number of risk profiles, which are focused risk assessments of specific topics. In 2014, we investigated the risks associated with travelling staff and the risks associated with cloud computing. We also reviewed our reserving process to confirm that it continues to produce an appropriate and consistent claims reserve for the financial statements. Finally, we updated the risk profile on our Beazley Breach Response product which dated back to 2012. This review will now be performed on an annual basis to provide the board with assurance that the underwriting approach remains appropriate against the backdrop of the relatively fast pace of developments in cyber.

The quarterly Own Risk and Solvency Assessment (ORSA) report has been a feature at Beazley boards since 2010 and remains a valuable tool for the directors to understand current and prospective risks and the associated capital requirements.

For the last three years, the capital required to support the business has been determined using the Solvency II capital model. This internal model has been designed around Beazley's risk profile, with particular focus on the two key risks of managing the market pricing cycle related to our medium tailed specialty lines business and the natural catastrophe exposure from our short tailed classes.

The design principle has remained unchanged since it was first introduced in 2004. As such, most board members and senior management have been part of its design, implementation and operation which means that it is understood and used with confidence as part of managing the business. The total number of times the model was used in 2014 was 81, examples of its use include business planning, reinsurance purchasing, and monitoring risk appetite.

The capital model's longevity also means that we now have over ten years of Beazley specific data so we can compare actual experience against expected model output to supplement the 50 years of market data we use in its parameterisation.

In 2014, we have focused our review on ensuring the dependencies (how the different risks within the model interact) are understood and appropriately reflect what might happen in reality. Dependencies in a capital model are a key area of judgement because of the lack of actual data available. As a result they have to be extrapolated. Beazley uses a 'driver of risk' approach (where interactions are modelled explicitly) rather than applying statistical assumptions between all assumptions. This focuses board discussions on the interactions which are most likely to have a detrimental impact on the business model.

With so much risk and capital information available to boards and senior management today it is essential they receive the right level of information, analysis and interpretation to help them manage risk. Clarity is critical.

Risk management *continued*

Risk management philosophy

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

Risk management strategy

The Beazley plc board has delegated executive oversight of the risk management department to the executive committee, which in turn has delegated immediate oversight to the risk and regulatory committee. The Beazley plc board has also delegated oversight of the risk management framework to the audit and risk committee and the primary regulated subsidiary boards have established a board risk committee.

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

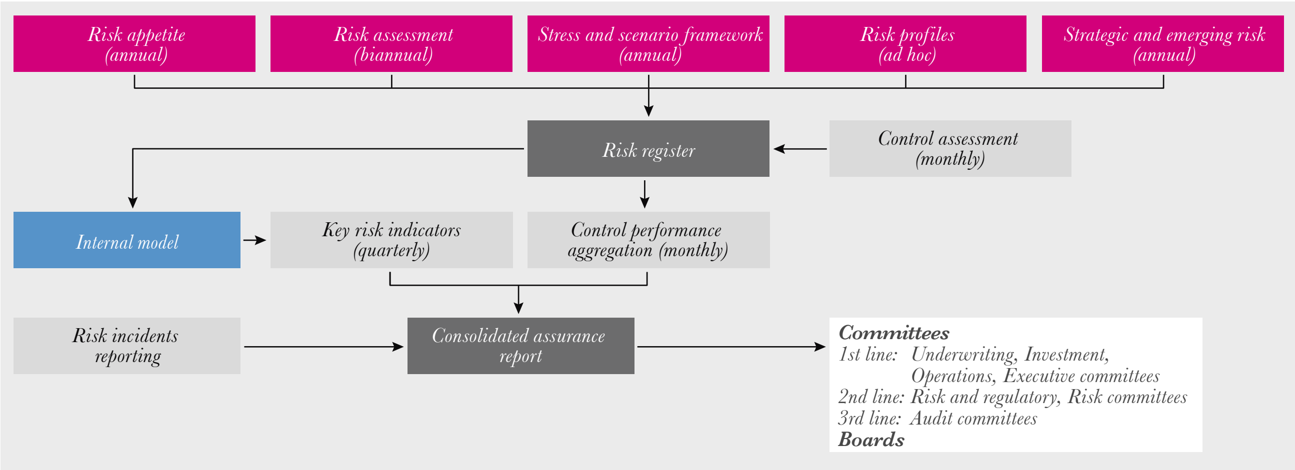
In addition, the following risk management principles have been adopted:
- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- it is a core capability for all employees;
- risk management is embedded in day-to-day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

Risk management framework

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

Business risk management *Risk ownership*	*Risk management* *Risk oversight*	*Internal audit* *Risk assurance*
– Identifies risk *– Assesses risk* *– Mitigates risk* *– Monitors risk* *– Records status* *– Remediates when required*	*– Are risks being identified?* *– Are controls operating effectively?* *– Are controls being signed off?* *– Reports to committees and board*	*– Independently tests control design* *– Independently tests control operation* *– Reports to committees and board*

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (56 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley plc board, and the control environment that is operated by the business to remain within the risk appetite. The following diagram illustrates the components of the risk management framework.



In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a consolidated assurance report. For each risk, the consolidated assurance report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance function and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks.

A suite of risk management reports are provided to the boards and committees to assist senior management and board members to discharge their decision making responsibilities. The risk reports include the risk appetite statement, the consolidated assurance report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the remuneration committee and the ORSA report.

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

Risk management *continued*

The risks to financial performance

The board monitors and manages risks grouped into eight categories which cover the universe of risk that could affect Beazley, and considers the following two to be the most significant.

Insurance risk

Given the nature of Beazley's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:

- **Market cycle risk:** The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies' using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The group uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers.
- **Natural catastrophe risk:** The risk of one large event caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Beazley's risk profile, this could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Reserve risk:** Beazley has a consistent and conservative reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The group uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claim team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.
- **Single risk losses:** Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the group's financial performance.

Strategic risk

Alongside these insurance risks, the success of the group depends on the execution of an appropriate strategy. The main strategic risks can be summarised as follows:

- **Strategic decisions:** The group's performance would be affected in the event of making strategic decisions that do not add value. The group mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately 30 senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which Beazley operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of Beazley's progress against its strategy.

- **Senior management performance:** There is a risk that senior management is overstretched or does not perform, which would have a detrimental impact on the group's performance. The performance of the senior management team is monitored by the CEO and talent management team and overseen by the nomination committee.
- **Reputation:** Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. Beazley expects its staff to act honourably (one of seven ingredients of Being Beazley) by doing the right thing.
- **Flight risk:** There is a risk that Beazley is unable to deliver its strategy due to the loss of key personnel. Beazley has controls in place to identify and monitor this risk, for example, through succession planning.
- **Crisis management:** This is the risk caused by the destabilising effect of the group having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that Beazley undertakes a corporate transaction which does not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

Under the environmental risk heading, the board monitors five categories of emerging and strategic risk on a quarterly basis, namely; socio-political risk, distribution, market conditions, talent and regulation.

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments is adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee.
- **Operational risk:** This risk is the failure of people, processes and systems or the impact of an external event on Beazley's operations and is monitored by the operations committee.
- **Credit risk:** Beazley has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The underwriting committee monitors this risk.
- **Regulatory and legal risk:** This is the risk that Beazley does not operate in line with the relevant regulatory framework in the territories where it operates. Of the eight risk categories, the board has the lowest tolerance for this risk.
- **Liquidity risk:** This is the risk that the group does not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The structure of the Beazley group is not complex and so the main group risk is that one group entity operates to the detriment of another group entity or entities. Although this risk is currently small, the Beazley plc board monitors this risk through the reports it receives from each entity.

Responsible business

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

Highlights

$319,470
donated to charities

23
volunteering community projects in 11 cities

37,370,000
steps taken by employees during our Health & Wellbeing Walk the World campaign

13
diversity and inclusion forums

We take our social and environmental responsibilities seriously. But this aspect of our work and of our lives is more than a responsibility. We support causes our employees feel passionate about – causes to which we can contribute not only money but also our time and expertise.

Employee engagement is therefore critical – both in the support we provide to charitable causes and in contributing more broadly to the quality of life in our local communities. In 2014, hundreds of Beazley employees rolled up their sleeves and participated as volunteers in 23 community projects in 11 cities around the world, ranging from schools in east London to food banks in San Francisco.

Our responsible business committee, chaired by Clive Washbourn, sets the global strategy for corporate social responsibility, which at Beazley is focused on:
- charity;
- community;
- sustainability;
- marketplace;
- health, wellbeing and safety; and
- diversity and inclusion.

In 2014 we built on the foundations put in place last year and have clear strategies for each focus area which we are now implementing and measuring.

Supporting our communities

We have 25 offices around the world and our aim is to ensure our presence in the communities where we operate is positive. Focusing on disadvantaged children and homelessness, we've helped build skills and expertise for entering the workforce, built better learning environments through to helping younger children with their reading and numbers.

Make a Difference 2014

During September and October over 280 employees in the US, UK and Dublin volunteered in our communities to make a positive difference.

Look Ahead

Look Ahead supports people who, for a variety of reasons, need some extra support to achieve their goals, realise their dreams and live independently. We spent time with a group of local people who have experienced homelessness in the past building their confidence for job interviews and giving them an opportunity to interact with business professionals.

Tower Hamlets Cemetery Park

The Tower Hamlets Cemetery Park is a beautiful wooded area in the east end of London. The park is used as an outdoor classroom during the year for more than 7,000 school children, providing a welcome change of scene from the housing estates where many of them live. We spent the day tidying up the park to help keep it a special place for the children.

Providence Row

Providence Row tackles the root causes of homelessness to help people get off and stay off the streets – providing food and shelter, employment support and training schemes. The Beazley team helped prepare and cook meals alongside catering trainees to bringing homeless and vulnerable people together with local businesses to raise awareness and change perceptions.

Feeding America

An estimated 49 million Americans, including 16 million children, are food insecure, meaning they live at risk of hunger. Each year, 46.5 million Americans receive food and groceries from the Feeding America network, including 12 million children. Beazley teams across the US worked with our charity partner, Feeding America, to help sort, pack, deliver and serve food in their local communities.

Responsible business *continued*

Supporting our communities *continued*

Supporting Canon Barnett Primary School

Trainee of the year award

Lloyd's Community programme

For many years, we've supported the Lloyd's Community Programme to help build a stronger local community by getting involved in projects in east London.

Each week during the school term, employees from our London office head to Canon Barnett Primary School for half an hour during their lunch break, to help children with their reading and numbers. Literacy and numeracy are the building blocks of a good start in life, opening up all kinds of opportunities beyond school, and we wanted to be part of helping kids build these vital skills. Our volunteers work with individual children to make numbers fun, or to help them develop their reading, comprehension and verbal skills.

"I've been volunteering at Canon Barnett Primary School for 2.5 years now and I find it just as rewarding as I hope the children do. It's wonderful when you see their faces light up when they have achieved something and I'm impressed by the vast improvement they make during the course of the school year. It certainly injects energy into my day as well."

Jasvinder Kaur

Brokerage programme

Since 2007 Beazley has taken part in the City of London Business Traineeship programme, helping to fund a charity called The Brokerage.

The programme forges links between companies within the City of London and talented individuals from the surrounding boroughs who would not normally have access to jobs in the Square Mile. As part of the programme, paid internship placements are offered during the summer for high achieving students awaiting their A-Level results. The internships last around ten weeks and give the students access to the corporate environment, an insight into the insurance world and the opportunity to learn vital business skills.

This summer Beazley London welcomed six students for ten weeks to work in different teams across the business. The partnership has worked well, not only for the students but also for us, as we saw two individuals from the 2013 programme return as employees in 2014. We plan to expand our involvement in the programme going forward as part of our approach to diversity and responsible business.

We're incredibly proud that one of our students, Jamila Dahoun, went on to win the Trainee of the Year award for the City of London programme. Jamila worked within our specialty lines team and is now at Durham University studying economics.

Building partnerships with charities

Our charity committees in the UK and US are made up of passionate employees across the business whose remit is to: encourage and support Beazley people to participate in charitable and community activities; manage Beazley's corporate charitable partnerships; and oversee Beazley's response to large scale disasters.

Feeding America

ShelterBox – London

In 2014 we partnered with:
World Child Cancer, ShelterBox, Rwanda Aid, Feeding America and The Conservation Fund.

Throughout the year our employees have given up their time to fundraise for charities raising cash which Beazley has match funded to recognise their efforts.

Beazley also supported communities and donated to charities to support relief efforts for the US tornadoes, the Balkan floods and the Ebola crisis.

World Child Cancer

"The partnership with Beazley has had a big impact on our work this year. They have contributed in so many different ways; they've run, cycled, boxed, baked, and shared their expertise, knowledge and contacts to help raise money and awareness. They have also helped us with things that as a small organisation we often struggle with, such as our creaking IT system! Beazley's funding of our Malawi project for a whole year will cover staff training and costs, treatment and drugs for over 270 children. By training more doctors and nurses we can diagnose and treat children more effectively and raise survival rates."

Jane Page
World Child Cancer

Helping children in Malawi

Responsible business *continued*

Sustainability

Our environmental policy clearly states our aim and initiatives to reduce our environmental impact.

Our strategy for 2014 and 2015 is to focus on three key areas:

- our offices: ensuring the environmental impact from our offices is minimal, and finding ways to enhance our offices so they have a more positive impact;
- our procurement: leveraging our buying power to make a positive environmental impact; and
- our people and communications: engaging our people to help achieve our goals, consider their environmental approach outside work and keep them informed of what we are doing.

Our offices: as part of our Farmington office refurbishment in Connecticut we used environmentally friendly materials and also donated the used ancillary furniture. In Dallas, we installed LED lighting throughout our new office.

Carbon footprint: every day our people do a range of things to reduce our carbon footprint – from using public transport on business trips to booking Climatecars, who provide electric and hybrid vehicles and are our preferred car transportation company in the UK. Our recent greenhouse gas (GHG) emissions report showed that in the UK we increased our emissions by 1.14% compared to 2012 and in the US increased our emissions by 10% compared to 2012. This is largely attributable to increased travel by rail and air due to a higher headcount. We increased our video conferencing capability again this year, and live streamed part of our annual strategy event, to help reduce the necessity for travel.

Recycling: working closely with our landlords we actively participate in recycling in all offices and ensure our people are aware of how they can take part, from using recycled paper and multifunction print devices to reusing or recycling their unwanted clothing.

Joining the London Living Wage Foundation

In September, Beazley joined the London Living Wage Foundation. The Foundation is an organisation that promotes a minimum wage beyond the legal requirement for businesses and their employees, contractors and third party employees. By joining the London Living Wage Foundation, Beazley will ensure all people who work on Beazley premises for more than two hours per day for eight or more consecutive weeks – for example our cleaners – are paid the London Living Wage. We are the first syndicate to follow Lloyd's in joining the London Living Wage Foundation. We believe this is the right thing for our business community to do, and want to use what influence we have to encourage others to join. We'll continue to find opportunities similar to this globally to make a difference in all our communities.

Marketplace

The way we do our business also has an impact on our partners and our peers. One of our goals is therefore to identify and increase the ways in which we can influence others to do the right thing through our business activities.

Some of our insurance products assist insureds in their corporate duty of care: for example we provide data breach assistance when third party records are lost (BBR); personal medical policies for US school teachers to fill the gap between legislative attachment points and ability to pay (GAP Medical); a free advice line and procedure manual review to educate employers in the corporate duty of care they owe to their employees (EPL); and overseas employee protection to recover employees in the event of an emergency situation such as those arising from the Arab Spring or the Japanese tsunami (Beazley Flight).

For the healthcare team the effect is more tangible; Beazley returns a proportion of the premium to insureds where the quality of procedures is high, which helps the hospitals we support to improve their systems and their loss record. Larry Smith, vice president of risk management services at MedStar, a major hospital system based in Maryland, US, has worked with our hospital E&O team for seven years to improve quality and patient safety at MedStar. He notes that, "With Beazley's encouragement and financial support MedStar has seen a dramatic decrease in the frequency and severity of obstetrical liability claims".

Within its daily activities Beazley always looks for options that generate additional benefits from our spending, for example by choosing conferencing or entertainment venues that support charities and local communities.

Looking forward we will research more opportunities to extend a positive impact from our business activities into the community; and we will continue to promote activities we think our peers could emulate. In the healthcare space we will try to supplement our data with industry data that can reveal what makes a better performing hospital, in order to develop a best practice approach that we can share/support.

Health, wellbeing and safety

We continue to ensure all employees, contractors and visitors are given induction, training and supervision in aspects of health and safety, ensuing we are up-to-date and compliant with current laws. We also conduct risk assessments in all offices.

Diversity and inclusion

We are an equal opportunities employer, ensuring we offer equal treatment to employees and prospective employees. We treat all employees fairly, with dignity and respect.

'Virtually walking the world' – Singapore and New York

Movember

Wearing pink for women's health

This year we launched a programme to raise awareness of the wellbeing benefits we offer to our employees and to promote a healthy lifestyle. We have focused on work/life balance, stress and resilience and in September we wore pink to support women's health and grew or stuck on moustaches for men's health in November.

During the summer we asked our employees to join us measuring their steps every day to see if we could 'virtually' walk the world. We walked from our San Francisco office all the way to our Brisbane office in three weeks as part of the Health & Wellbeing initiative – 18,685 miles or 37,370,000 steps, to be precise.

Our aim is to continue building an open and collaborative culture and this year we have continued to build a solid diverse and inclusive foundation, focusing on:

Accountable leadership: raising awareness and encouraging our leaders to actively become sponsors and advocates through their own actions and their approach to leading their teams.

Environment: ensuring we are able to capture the right management information so we can review our existing practices and policies to ensure they support our goals.

Attraction of diverse talent: ensuring we have access to a diverse range of candidates through our recruitment activities.

Communication, awareness and understanding: about diversity and inclusion, sharing ideas and thoughts and creating collaborative sites on our intranet for all staff to get involved with.

In 2014 we ran diversity and inclusion development sessions for our managers covering topics such as unconscious bias and how to lead cross-cultural teams, as well as hosting forums for all employees globally to reinforce our diverse and inclusive culture at Beazley through our Being Beazley initiative.

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2014.

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

Management report
The directors' report, together with the strategic report on pages 1 to 63, serves as the management report for the purpose of Disclosure and Transparency Rule 4.1.8R.

Directors' responsibilities
The statement of directors' responsibilities in respect of the annual report and financial statements is set out on page 109.

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

Results and dividends
The consolidated profit before taxation for the year ended 31 December 2014 amounted to $261.9m (2013: $313.3m).

The directors announce both a second interim dividend of 6.2p per ordinary share (2013 second interim dividend: 5.9p) and a special dividend of 11.8p per ordinary share (2013 special dividend: 16.1p per ordinary share). These dividends, together with the first interim dividend of 3.1p per ordinary share (2013 first interim dividend: 2.9p), give a total of 21.1p (2013: 24.9p).

The aforementioned second interim and special dividends will be paid on 27 March 2015 to shareholders on the register on 27 February 2015 (save to the extent that shareholders on the register of members on 27 February 2015 are to be paid a dividend by a subsidiary of the company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

Going concern
A review of the financial performance of the group is set out on pages 40 to 50. The financial position of the group, its cash flows and borrowing facilities are included therein.

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

Directors

The directors of the company at 31 December 2014, who served during the year and to the date of this report, were as follows:

Dennis Holt	Non-executive chairman
David Andrew Horton	Chief executive
George Patrick Blunden	Non-executive director
Martin Lindsay Bride	Finance director
Adrian Peter Cox	Director
Angela Doreen Crawford-Ingle	Non-executive director
Neil Patrick Maidment	Director
Padraic Joseph O'Connor	Non-executive director
Vincent Joseph Sheridan	Non-executive director
Kenneth Paul Sroka	Non-executive director
Rolf Albert Wilhelm Tolle	Non-executive director
Clive Andrew Washbourn	Director

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

On 4 February 2015 the board approved, after rigorous review from the nomination committee, that D Holt and P J O'Connor stand for re-election at the forthcoming AGM for three years and one year respectively.

Directors' interests

The directors' interests in shares of the company in office at the end of the year, including any interests of a connected person (as defined in the Disclosure and Transparency Rules of the UK's Financial Conduct Authority), can be found in the directors' remuneration report on page 83.

Details of directors' service contracts are given in the directors' remuneration report. The directors' biographies are set out in the 'board of directors' section of this report.

Corporate governance

The company's compliance with corporate governance is disclosed in the statement of corporate governance on pages 73 to 81.

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages 58 to 63.

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

Risk management

The group's approach to risk management is set out on pages 53 to 57 and further detail is contained in note 2 to the financial statements on pages 130 to 141.

Directors' report *continued*

Substantial shareholdings

As at 4 February 2015, the board had been notified of, or was otherwise aware of, the following shareholdings of 3% or more of the company's issued ordinary share capital:

	Number of ordinary shares	%
Invesco Perpetual	109,235,278	20.9
MFS Investment Management	41,474,440	8.0
Dimensional Fund Advisors	22,700,203	4.4
Woodford Investment Management	22,670,165	4.3
Legal & General Investment Management	17,768,814	3.4
Standard Life Investments	17,723,859	3.4
Norges Bank Investment Management	16,607,030	3.2
Schroder Investment Management	16,176,229	3.1

Recent developments and post balance sheet events

Recent developments and post balance sheet events are given in note 34 in the financial statements on page 177.

Likely future developments

Information relating to likely future developments can be found in the strategic report.

Research and development

In the ordinary course of business the group develops new products and services in each of its business divisions.

Greenhouse gas emissions

Information relating to greenhouse gas emissions can be found in the responsible business section on pages 58-63.

Diversity and inclusion

Information concerning diversity and inclusion can be found in the responsible business section on pages 58-63 and in the statement on corporate governance section's report of the nomination committee on page 81.

Authority to purchase own shares

On 24 March 2014 shareholders approved an authority, which will expire on 26 June 2015 or, if earlier, at the conclusion of the 2015 AGM for the company to repurchase up to a maximum of 52,098,128 ordinary shares (representing approximately 10 per cent of the company's issued ordinary share capital). During the year, Beazley acquired 3.1m of its own shares into the employee benefit trust. The board continues to regard the ability to repurchase issued shares in suitable circumstances an important part of the financial management of the company. A resolution will be proposed at the 2015 AGM to renew the authority for the company to purchase its own share capital up to the specified limits for a further year. More detail of this proposal is given in the notice of AGM.

Share capital

The company has ordinary shares in issue. Ordinary shares therefore represent 100% of the total issued share capital as at 31 December 2014 and 4 February 2015. Details of the movement in ordinary share capital during the year can be found in note 21 on page 158.

As at 4 February 2015 there were outstanding options to subscribe for 21.0m ordinary shares pursuant to employee share schemes, representing 4.0% of the issued share capital. If the authority to purchase shares were exercised in full, these options would represent 3.9% of the enlarged issued share capital.

Annual general meeting

The annual general meeting of the company will be held at 12:00hrs on Wednesday 25 March 2015 at 2 Northwood Avenue, Santry, Dublin. The notice of the AGM details the business to be put to shareholders.

Auditors

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

Disclosure of information to auditors

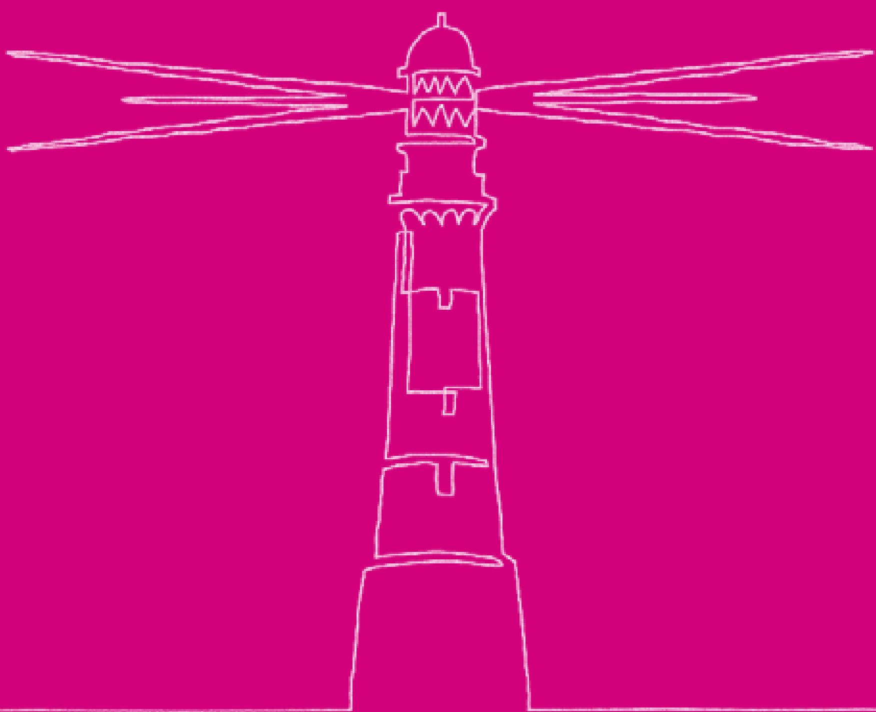
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he or she ought to have taken as a director to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

By order of the board

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

4 February 2015

Governance



Letter from our chairman

The corporate governance report is my opportunity, as chairman, to explain how Beazley has been managed during the year; how the board has performed and how our systems of governance, internal control and risk management have operated throughout the year.

We are committed to the highest standards of corporate governance and believe the group's robust system of governance has been designed to establish, implement and maintain effective controls, internal reporting and communication of information across all levels within the group. These are fundamental to the long term success of the company.

The board's role is to set the company's strategic aim, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board met regularly through the year, set direction and risk appetite and provided oversight and control of management in the day-to-day running of the business. As chairman, I seek to ensure open and collective discussion and debate of significant issues is achieved, and that appropriate decisions are then reached, we empower management to then execute that decision, with our on-going oversight and support. In May we held a board strategy day and reviewed the 2015 business conditions and plan together with our strategic objectives and long term plan.

The board and its committees met regularly during the year with near 100% attendance from all members. We promote a culture of openness and debate at each meeting and seek to receive constructive challenge from the non-executive directors to help develop proposals on strategy and other matters.

The group recognises the value from regularly reviewing the effectiveness of the board. We conducted a self assessment in 2014 through a questionnaire. Whilst there are no matters of significance to report, we have developed some actions to support continuous improvement in our governance processes. In 2015 an external board effectiveness review will be undertaken. We ensure directors continually update their skills through individual development plans and board training. Talent development and succession planning are critical components of sustainable success and this starts at the very top, in the boardroom. It is vital that we have on the board the right balance and diversity of expertise, skills, experience and perspectives, in addition to independence of thought and action.

The group believes in the importance of diversity for board and group effectiveness and has developed a diversity strategy to support our commitment to being an equal opportunities employer. We are committed to ensuring appointments are made on merit against selection criteria. Further details of our policy are set out in the nomination committee report.

The provision of timely, accurate and appropriate information to the board and committees is key to good governance. During the year all board and committee papers were issued electronically which ensured that information was easily available through a secure medium.

I am pleased to confirm the company has complied with the principles and provisions set out in the 2012 UK Corporate Governance Code throughout the year ended 31 December 2014 and explained the independence of Rolf Tolle on page 73. Details of the activities of the board and its committee are set out on pages 73 to 81.

Dennis Holt
Chairman

Board of directors

Our committees and committee chairmen

The audit and risk committee assists the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the company's process for monitoring compliance with laws and regulations and the code of conduct. It also ensures that an effective risk management process exists in the major regulated subsidiaries and that the Beazley group has an effective framework and process for managing its risks.

The remuneration committee ensures that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives while complying with the requirements of regulatory and governance bodies, satisfying the expectations of shareholders and remaining consistent with the expectations of the wider employee population.

The nomination committee is focused on evaluating the board of directors, ensuring an appropriate balance of skills, considering and recommending board and committee candidates and considering board succession.

☛ Governance framework

Board of directors

Audit and risk committee	*Remuneration committee*
The audit and risk committee is chaired by Angela Crawford-Ingle.	*The remuneration committee is chaired by Padraic O'Connor.*
Nomination committee	*Executive committee*
The nomination committee is chaired by Dennis Holt.	*The executive committee is chaired by Andrew Horton and acts under delegated authority from the board.*

For further details go to pages 73-81

Andrew Horton
Chief executive officer

Appointed: 12 June 2003*
Experience: Andrew joined Beazley in June 2003 as finance director. Prior to that he held various financial positions within ING, NatWest and Lloyds Bank and was the chief financial officer for the UK wholesale banking division of ING immediately prior to joining Beazley. He qualified as a chartered accountant with Coopers and Lybrand in 1987. He joined the board of Man Group plc in 2013 as a non-executive director.
Committee: Executive committee (chair)

Martin Bride
Group finance director

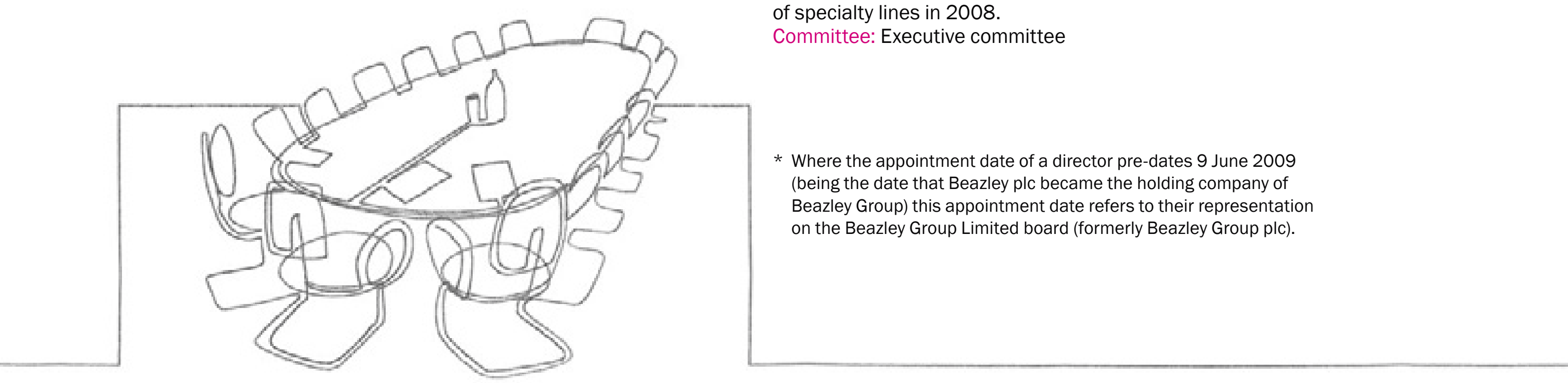
Appointed: 5 May 2009
Experience: Martin joined Beazley in May 2009 as finance director. He began his career in insurance in 1985 and took up his first role as a finance director in 1996. He trained as a general insurance actuary, before pursuing a career in the composite insurance sector with Aviva and Zurich Financial Services. His experience spans personal and commercial lines general insurance, the London market, life insurance and asset management in both the UK and France.
Committee: Executive committee

Adrian Cox
Head of specialty lines

Appointed: 6 December 2010
Experience: Adrian joined Beazley in June 2001. Prior to this, Adrian was at General Re for eight years, writing both treaty and facultative business. Since 2001 his responsibilities have included the casualty treaty portfolio and the SME and large risks portfolios, before being promoted to head of specialty lines in 2008.
Committee: Executive committee

Neil Maidment
Chief underwriting officer

Appointed: 15 March 2001*
Experience: Neil joined Beazley in 1990 and was appointed to the board in 1993. Neil has 30 years of Lloyd's experience and, in 2011, was elected to the board of the Lloyd's Market Association.
Committee: Executive committee



* Where the appointment date of a director pre-dates 9 June 2009 (being the date that Beazley plc became the holding company of Beazley Group) this appointment date refers to their representation on the Beazley Group Limited board (formerly Beazley Group plc).

Clive Washbourn
Head of marine

Appointed: 04 December 2006*
Experience: Clive has over 30 years' experience in the marine insurance industry and actively underwrites marine hull, marine liability and marine war risks.
Committee: Executive committee

Dennis Holt
Chairman

Appointed: 21 July 2011
Experience: Dennis has more than 44 years' experience in financial services markets. He was formerly a main board executive director at Lloyds TSB (2000-2001), chief executive of AXA UK and a member of AXA's Global executive committee (2001-2006). He has been chairman of Liverpool Victoria and deputy chairman of Bank of Ireland. Dennis has recently been appointed as chairman of The Co-Operative Bank plc.
Committees: Nomination committee (chair), remuneration committee

Vincent Sheridan
Non-executive director

Appointed: 9 June 2009
Experience: Vincent is currently a non-executive director of FBD Holdings plc, Mercer (Ireland) Limited, Canada Life Assurance Ireland Limited and a number of other companies. He retired as chief executive of Vhi Healthcare in 2008 and, prior to that, was group chief executive of the Norwich Union Insurance Group in Ireland for ten years from 1991 to 2001. He is a past president of the Institute of Chartered Accountants in Ireland and a former director of the Irish Stock Exchange.
Committee: Audit and risk committee

Padraic O'Connor
Non-executive director

Appointed: 13 March 2009*
Experience: Padraic is chairman of the Irish Stock Exchange as well as a non-executive director of Rabobank and a number of other companies. He was managing director of NCB Group between 1991 and 1999, prior to which he was chief economist at the firm. Before joining NCB, Padraic worked at the Department of Finance and the Central Bank of Ireland. He holds primary and postgraduate degrees in economics from University College Dublin.
Committee: Remuneration committee (chair)

George Blunden
Non-executive director

Appointed: 1 January 2010
Experience: George is the senior independent director. He retired as senior vice president and director from AllianceBernstein Ltd in December 2009. He had previously been chief executive of Union plc, and a director of SG Warburg Securities, Seccombe, Marshall and Campion plc and Meridian Investment Performance Services. He is the chairman of the Charity Bank Ltd and chairman of Stonewater Ltd.
Committees: Audit and risk committee, remuneration committee, nomination committee

Ken Sroka
Non-executive director

Appointed: 12 November 2010
Experience: Ken was formerly head of product development at Zurich Financial Services, retiring in 2008. During his 15 years there, he created and directed Zurich's financial lines business in North America and, more recently, he focused on the development of specialist products in North America as president and CEO of Zurich North American Specialties Division. Prior to joining Zurich in 1993, Ken's career included roles at Chubb, AIG and USF&G.
Committees: Remuneration committee, nomination committee

Angela Crawford-Ingle
Non-executive director

Appointed: 27 March 2013
Experience: Angela is a Chartered Accountant with extensive audit experience of multinational and listed companies. She was a Partner in PricewaterhouseCoopers specialising in Financial Services for 20 years during which time she led the Insurance and Investment Management Division and retired in 2008. She is currently a Partner in Ambre Partners, a firm providing strategic, financial and operational advice to Private Equity firms and entrepreneurial companies. Angela has recently been appointed as a non-executive director of Swinton Group Ltd.
Committee: Audit and risk committee (chair)

Rolf Tolle
Non-executive director

Appointed: 6 December 2010
Experience: Rolf joined the board of Beazley Furlonge Limited in June 2010. He retired as franchise performance director at Lloyd's in December 2009 after nearly seven years in the role, during which time he was widely credited with establishing a new and successful partnership between the Corporation of Lloyd's and the market. Prior to that, he served as chief underwriting officer of Faraday Group, General Re's Lloyd's insurance and reinsurance operation.
Committee: Audit and risk committee

Investor relations

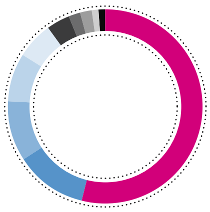
We place great importance on communication with shareholders. The annual report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). A mailed copy of the accounts is also available on request. The company responds to individual letters from shareholders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

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

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

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

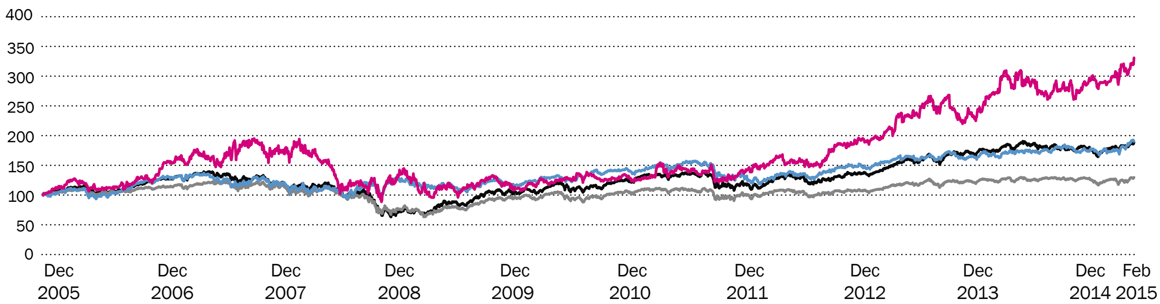
Shareholding by type of investor



Mutual funds	54%
Retail	12%
Pensions	10%
Insurance	8%
Investment trusts	6%
Sovereign wealth funds	4%
Directors	2%
Charities	2%
Trading	1%
Others	1%

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

Share price performance



Financial calendar

27 February 2015	Second interim dividend and special dividend record date
25 March 2015	Annual general meeting
27 March 2015	Second interim dividend and special dividend payment date for the six months ended 31 December 2014
24 July 2015	First interim dividend announcement for the six months ended 30 June 2015

Statement of corporate governance

Compliance with code provisions

The board confirms that the company and the group have complied with the provisions set out in the 2012 version of the Financial Reporting Council's Corporate Governance Code throughout the year ended 31 December 2014 and explained the independence of Rolf Tolle under the board review.

The board considers that the annual report and accounts, taken as a whole, are fair, balanced and understandable; and that they provide the information necessary for shareholders to assess the company's performance, business model and strategy.

The company's auditors have reviewed the company's compliance to the extent required by the UK listing rules for review by auditors of UK listed companies.

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

The board

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

Rolf Tolle was appointed as a non-executive director in December 2010. He has a familial connection in the business with his son, Christian Tolle, who joined the company in August 2009 and is head of life, accident & health. Christian reports to the chief underwriting officer and does not currently sit on the executive committee. The board values the independence of its non-executive directors and considered carefully the appointment of Rolf Tolle, acknowledging that his relationship with his son could call his independence into question. The board believes that the position that his son holds within Beazley does not impact Rolf's independence of judgement.

Rolf Tolle is a significant figure in the Lloyd's insurance sector, and is a substantive asset to the board and the company. He was the first appointed Franchise Performance Director for the Lloyd's of London market. This was the new position created as part of transformation of the Lloyd's market. His role was to monitor the performance of the Lloyd's syndicates and to formulate and implement procedures to monitor risk across the Lloyd's market. In this context he brings valuable insight and skills to the Beazley board, as both an industry expert and also from a risk perspective. He performs a valuable role in bringing challenge to the boardroom based on his in depth understanding of the key drivers and challenges faced by the group.

The board meets the independence criteria for Rolf Tolle by ensuring that when life, accident & health is a specific board matter Rolf Tolle excuses himself from the discussion and any board or committee decision, this occurs significantly less than 5% of the time set aside for board meetings. The board believes that this practice is consistent with the spirit of the UK Corporate Governance Code and the principle of independence. The chairman oversees this potential conflict of interest, and ensures that the matter is revisited annually as part of the board effectiveness review. The board is satisfied that there is no detriment to shareholders and Rolf Tolle's continuance on the board of Beazley adds considerable value to the business and shareholders.

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

The full board meets at least five times each year and more frequently where business needs require. The board has a schedule of matters reserved for its decision. This includes, inter alia, strategic matters; statutory matters intended to generate and preserve value over the longer term; approval of financial statements and dividends; appointments and terminations of directors, officers and auditors; appointments of committees and setting of terms of reference. It is responsible for: the review of group performance against budgets; approving material contracts; determining authority levels within which management is required to operate; reviewing the group's annual forecasts; and approval of the group's corporate business plans, including capital adequacy and the Own Risk Solvency Assessment. The board is responsible for determining the nature and extent of the significant risks it is willing to take in pursuing its strategic objectives.

The board has also appointed an executive committee with delegated responsibility for particular matters such as considering the business plan, underwriting, risk and regulations (including the effectiveness of the internal control and risk management systems), investments and operations.

Statement of corporate governance *continued*

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. Directors have access to an electronic information repository to support their activities. During 2014 the board continued to support the maintenance and development of Beazley's information security programme to address the changing and emerging cyber security threats. All directors allocate sufficient time to the company to enable them to discharge their responsibilities effectively. The terms and conditions of appointment for all the non-executive directors set out the expected time commitment and they agree that they have sufficient time to meet what is expected of them. The nomination committee actively reviews the activities and time commitments of members and any changes to other significant commitments of the chairman and the non-executive directors would be reported to the board as they arose.

The composition of, and appointments to, the board of both executive and non-executive directors are considered by the nomination committee. The recommendations of the nomination committee are ultimately made to the full board, which considers them before any change is made. All directors receive a full, formal and tailored induction on joining the board and the chairman regularly reviews and agrees with each director their training needs to ensure that they continually update their skills, knowledge and familiarity with the company, as required to fulfil their role both on the board and on any board committee of which they are a member. The remuneration committee considers any remuneration package of executive directors before it is offered to a potential appointee.

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

Meetings with non-executive directors

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

Board performance evaluation

Under the UK Corporate Governance Code, the board is required to undertake formal and rigorous evaluation of its own performance and that of its committees and individual directors, and for this to be externally facilitated every three years. In 2012 an assessment of the effectiveness of the board and its committees was externally facilitated by Deloitte LLP. The board confirms that improvements recommended by Deloitte LLP have been implemented. In 2014 the self assessment of effectiveness of the board and its committees was conducted through a combination of questionnaires and meetings. The board considered the results of the assessment and confirmed that there were no significant matters to be addressed. Further details of the review are included in the nomination committee report.

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

In addition to the five regular board meetings, there were further meetings to consider the Q3 2014 interim statement and director changes. Attendance at the meetings was high. All the directors also attend an annual strategy day. The remuneration committee has five scheduled meetings and in 2014 there were three additional ad hoc meetings with full attendance.

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

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

* On 21 July 2014 Andrew Horton resigned as a member of the nomination committee. Where a director stood down from the board or board committee during the year only the number of meetings before standing down are shown.

Audit and internal control

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

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

The board agreed the 2014 risk appetite for the group at the end of 2013 and, throughout 2014, the board has considered and acted upon the information presented to it in order to make risk based decisions against the 2014 risk appetite. Key components of the risk management framework include monthly control self assessments and six monthly risk assessments, with ad hoc risk assessments being conducted when required. These matters have been considered by the executive risk and regulatory committee each month and the audit and risk committee and board quarterly. In addition, the board has considered the quarterly Own Risk and Solvency Assessment report in the past year. This risk management framework has provided the board with an ongoing process for identifying, assessing, monitoring and managing the risks to the company, and accords with the 'Internal Control: Revised Guidance for Directors on the Combined Code' guidance.

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

The key procedures that the directors have established to ensure that internal controls are effective and commensurate with a group of this size include:
- day-to-day supervision of the business by the executive directors;
- review and analysis by the various group committees of standard monthly, quarterly and periodic reporting, as prescribed by the board;
- review of financial, operational and assurance reports from management; and
- review of any significant issues arising from internal and external audits.

The board therefore confirms that it has, during 2014, reviewed the effectiveness of the group's risk management and internal controls (including financial, operational and compliance controls), which have been in place throughout the year under review and continue to operate up to the date of approval of the annual report and accounts.

Further information on the role of the audit and risk committee is set out on page 76 and further information on risk management at Beazley is set out in the risk management report.

Shareholder communication

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

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

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

Board committees

The group has established properly constituted audit and risk, remuneration and nomination committees of the board. There are terms of reference for each committee and details of their main responsibilities and activities in 2014 are set out on pages 76 to 81.

Statement of corporate governance *continued*

Audit and risk committee

Angela Crawford-Ingle

The board has delegated oversight of audit and risk matters to the audit and risk committee which currently comprises Angela Crawford-Ingle (committee chairman), Vincent Sheridan, George Blunden and Rolf Tolle.

"Since assuming the role of chair of the audit and risk committee in March 2013 I have worked collaboratively with the committee members, management and both internal and external assurance providers to make an effective assessment of the way in which governance operates, risks are assessed and managed and financial reporting or control matters are dealt with. My previous financial experience as a former partner of PriceWaterhouseCoopers has positioned me well to lead the committee in providing the challenge on such matters emerging within the business.

The primary role of the audit and risk committee in relation to financial reporting is to monitor the integrity of the financial statements of the group and any formal announcements relating to the group's financial performance and review significant financial reporting judgements. In light of the last year's changes to the Corporate Governance Code, the committee has approached its review of the annual report as a whole with focus on behalf of the board on considering the concept of 'fair, balanced and understandable'. We have challenged ourselves to ensure the key messages about the performance of the business are delivered in a manner consistent with our own understanding and interpretation of the information we receive. Set out in this section are the detailed responsibilities of the committee, as well as the specific considerations that have been on our agenda for 2014."

Responsibilities of the committee

The committee's main audit-related responsibilities are to, inter alia:

- monitor the integrity of the company's financial statements and any other formal announcements relating to the company's financial performance;
- review the Annual Report before submission to and approval by, the board, and before clearance by the external auditors, covering critical accounting policies, significant financial reporting judgements, the going concern assumption, compliance with accounting standards and other requirements under applicable law, regulations and governance codes applicable to the financial statements;
- review the company's internal financial controls and the company's internal control and risk management systems;
- approve the appointment or termination of the appointment of the head of internal audit and monitor and review the effectiveness of the company's internal audit function;
- review the arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other areas; and
- recommending to the board of directors the appointment, re-appointment and termination of external auditors and approving their remuneration and terms of engagement.

The committee's main risk-related responsibilities are to, inter alia:

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

Full details of the terms of reference of the committee are available at www.beazley.com.

The principal activities undertaken by the committee in discharging its responsibilities in 2014 are described below.

Significant financial statement reporting issues for the 2014 year
The significant financial statement reporting issues, along with the significant matters and accounting judgements that the committee considered during the year under review, are set out below.

a) Valuation of insurance liabilities
As further explained in note 1 to the financial statements, the group's policy is to hold sufficient provisions, including those to cover claims which have been incurred but not reported (IBNR) to meet all liabilities as they fall due. 2014 has seen a number of individual risk losses but has otherwise been a relatively benign year. Our consideration of catastrophe losses has therefore been restricted to developments in relation to the more significant catastrophes of previous years.

The audit committee receives regular reports from both the internal group actuary and the external audit team, as the output of independent projections are reviewed at key reporting quarters. In the latter part of the year, the group actuary has reported both informally and formally on the results of the Q3 peer review process, which the committee considers to be a key control as it provides a level of informed independent challenge for the reserve position. To support the year end view, the committee has received a detailed paper in support of the level of margin held within technical reserves in the group's balance sheet, which formed the basis for a robust discussion. Management confirmed that they remain satisfied that the outstanding claims reserves included in the financial statements provide an appropriate margin over projected ultimate claims costs to allow for the risks and uncertainties within the portfolio, and none of the committee's other enquiries identified any errors or inconsistencies that were material in the context of the financial statements as a whole.

The external auditors have also used the group's data to re-project the reserves using their own methodologies and the comparison presented to the committee has provided an additional level of challenge to the result. On the basis of their audit work, the auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole; and in the committee's view this provides further support to the appropriateness of the group's methodology.

b) Valuation of financial assets at fair value
As more fully explained in note 16, the total carrying amount of financial assets at fair value (investments) at 31 December 2014 is $4,077.4m.

The board is responsible for setting the investment strategy, defining the risk appetite and overseeing the internal and outsourced providers via the chief investment officer (CIO). The committee has been made aware of the new holdings in illiquid credit assets entered in the latter part of 2014, and remain satisfied that there is no increased level of valuation risk at this time. The committee receives reporting from the CIO via the finance director and it has reported for 2014 that the investment portfolio is in line with the board approved risk appetite and that carrying values of the portfolio as at 31 December 2014 are appropriate. The committee has monitored the change in the investment management arrangements through regular discussion with management, reviews undertaken by internal audit and has ensured that the external audit approach has responded to this change.

The finance director has drawn the committee's attention to the new accounting standards, effective for 2014 and ensured that financial reporting is prepared having regard to new applicable requirements.

The auditor explained the results of their work on financial instruments, including testing of their existence and valuation. On the basis of their audit work, no misstatements that were material in the context of the financial statements as a whole were identified.

c) Recoverability of insurance receivables
As detailed in note 18, the value of insurance receivables at 31 December 2014 is $587.0m. The committee notes that additional analysis in respect of ageing was requested and provided this year. This will be further enhanced in 2015. The analysis did not identify any material instances of default in relation to our insurance debtors.

Statement of corporate governance *continued*

d) Recoverability of reinsurance assets
The committee received confirmation from management that the majority of Beazley's reinsurance receivables are due from highly rated institutions. Based on previous experience, the committee has not noted any instances where poor quality reinsurers have led to a material financial loss and is comfortable with the monitoring processes management have described and put in place to ensure this continues. The external auditor has reported on the output of their work over assessing the recoverability of the group's reinsurance assets and the committee is comfortable that the judgements applied by management in making provision for bad debts is appropriate.

During 2014, in addition to financial reporting matters the following items were key topics of discussion for the committee:

- the progress and activity being undertaken towards ensuring that the group meets the requirements of Solvency II, including updates as to programme activity, outputs of internal model validation methodology and reporting requirements;
- the potential timelines for audit tendering in response to EU audit reform;
- the group's whistleblowing policy; and
- issues emerging from regulatory correspondence and the broader regulatory landscape, particularly in the US.

Internal audit

The Beazley plc board has delegated oversight of the group's internal audit function and its work to the audit and risk committee; the function reports directly to the committee. The committee's 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. In reviewing the effectiveness of the function the audit and risk committee remained satisfied that the internal audit function had sufficient resources during the year to undertake its duties.

During 2014, the committee:

- considered the results of all internal audit reports and monitored the progress of the business in addressing the findings of internal audit;
- approved the internal audit universe and 2015 internal audit plan;
- reviewed and approved the internal audit charter; and
- monitored ongoing amendments to the internal audit function's activities in light of emerging best practice in the financial sector.

The audit and risk committee is committed to obtaining independent and objective external assessments of the internal audit function at appropriate intervals. During 2014 an external quality assessment was undertaken which acknowledged the overall effectiveness of the function and made a number of recommendations as to how internal audit could develop further. The committee considered the recommendations and will oversee the progress of their implementation during 2015.

Assessing the effectiveness of the external auditors

The committee places great emphasis on ensuring there are high standards of quality and effectiveness in the external audit process. Audit quality is assessed throughout the year, with a focus on strong audit governance and the quality of the team. The effectiveness of the audit is assessed through discussion throughout the year, taking into account considerations such as:

- reviewing the quality and scope of the audit planning and its responsiveness to changes in the business;
- monitoring of the auditor's independence;
- considering the level of challenge evidenced in discussions and reporting; and
- discussing the output of the FRC's Audit Quality Review with our auditors.

Non-audit services

The audit and risk committee's responsibility to monitor and review the objectivity and independence of the external auditor is supported by a policy that we have developed 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 auditors, such as bookkeeping and accounting services, internal actuarial services and executive remuneration services. The policy requires pre-approval for all other material services such as due diligence assistance, tax services and advice on accounting and audit matters. The committee reviews the terms of such proposed services to ensure they have been robustly justified.

The committee receives a report from the external auditors twice a year setting out all non-audit services undertaken so that it can monitor the types of services being provided, and the fees incurred for that work. The aim is to limit the total spend on non-audit services to a maximum of the annual audit fee, unless it is deemed that not doing so is in the shareholders' interest from an efficiency and effectiveness point of view.

The split between audit and non-audit fees for the year under review is disclosed in note 6 to the financial statements. None of the non-audit services provided are considered by the audit and risk committee to affect the auditors' independence or objectivity.

Risk management

The Beazley plc board has delegated oversight of the risk management framework to the audit and risk committee. To assist the board, the committee, supported by the risk committees of the subsidiary boards, receives and reviews reports from the risk management function focusing on the following areas:

- risk appetite: The committee has monitored the actual risk profile against risk appetite throughout 2014 and can confirm that Beazley has been operating within risk appetite. The committee has also reviewed the proposed 2015 risk appetite and commended it to the Beazley plc board for approval;
- risk assessment: The committee has performed a review of the risk profile to ensure it covers the complete universe of risk and that all major underlying risks are visible and are being monitored;
- risk profiles: The committee and the risk committees of the subsidiary boards have reviewed risk profiles, which are focused risk assessments of specific topics. In 2014, the committee considered the risks associated with travelling staff, the risks associated with cloud computing and the risks associated with Beazley's reserving process to confirm that it continues to produce an appropriate and consistent claims reserve for the financial statements. The committee also considered an update on the Beazley Breach Response product given the continued evolution of the cyber environment;
- emerging risk: The committee supported the identification of strategic and emerging risks which were discussed;
- at the board meeting in May and have been subsequently monitored and reported in the quarterly Own Risk and Solvency Assessment (ORSA);
- oversight of the control environment: The committee has received a quarterly consolidated assurance report which provides the status of the control environment with views from the business, from risk management, from compliance and from internal audit. It also includes entries from the risk incident log;
- reverse stress testing: The committee has received the results of the reverse stress testing exercise to understand what would have to happen for the group to be unviable and has been able to provide assurance to the board that this work has been performed with the appropriate level of depth and expertise;
- oversight of internal model: The committee and the risk committees of the subsidiary boards have reviewed regular reports associated with the internal model. These have included a standing report on internal model output, and a validation report covering both internal and independent validation and themed reviews, for example, on the approach used to aggregate risk. These assessments have supported the boards' use of the internal model; and
- quarterly ORSA: The committee has received a quarterly ORSA report and has reviewed it as part of the quality assurance process before commending it to the board.

Statement of corporate governance *continued*

Remuneration committee

Padraic O'Connor

The membership of the remuneration committee remained unchanged in 2014 and comprises Padraic O'Connor (chairman), George Blunden, Dennis Holt and Ken Sroka.

Responsibilities of the committee

The committee's main responsibilities are to, inter alia:

- set the remuneration policy for the group for approval at the annual general meeting. The objective of such policy shall be to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company;
- recommend and where appropriate approve targets for performance related pay schemes and seek shareholder approval for any long term incentive arrangements;
- recommend the remuneration of the chairman of the company, the chief executive, the executive directors, the direct reports to the chief executive, the company secretary and such other members of the executive management as it is designated to consider. No director or manager shall be involved in any decisions as to his or her own remuneration;
- obtain reliable, up-to-date information about remuneration in other companies; and
- appoint and review the performance of remuneration committee consultants, Deloitte LLP.

Key activities in 2014

During 2014 the committee:

- reviewed the key aspects of the remuneration policy, and oversaw its implementation and application;
- satisfied itself that the current remuneration structure is appropriate to attract and retain talented people;
- considered the chief risk officer's report on the remuneration policy, which confirmed that the remuneration arrangements are consistent with, and promote, effective risk management throughout the organisation through the consideration of remuneration design, performance of the control environment, profit related pay targets, calculation of the bonus pool, and share plan awards;
- ensured incentives continued to be appropriate and to align company and shareholders;
- approved the grant of share awards under the group's deferred, retention and LTIP plans;
- considered the salary and bonus awards for 2014 for executive directors, heads of control functions and other officers;
- approved the fee awards for non-executive directors and recommended the chairman's fees to the board; and
- reviewed the executive director employment contracts.

Further information on the work of the remuneration committee is set out in the directors' remuneration report.

Nomination committee

Dennis Holt

The nomination committee is chaired by Dennis Holt and currently comprises George Blunden and Ken Sroka.

Responsibilities of the committee

The committee's main responsibilities are to, inter alia:

- regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the board compared to its current and projected position;
- give full consideration to succession planning for executive and non-executive directors and in particular for the key roles of chairman and chief executive, senior executives and any other member of the senior management as it is relevant to consider;
- ensure the directors have the required skills and competence;
- review annually the time required from non-executive directors;
- review the results of the board performance evaluation process that relate to the composition and skills and competencies of the board and ensure an appropriate response to development needs;
- recommend to the board the appointments for the role of senior independent director, chairman and membership of board committees; and
- recommend, if appropriate, all directors for re-election by shareholders under the annual re-election provisions of the UK Corporate Governance Code.

Policy on gender, diversity and inclusion

We believe having a diverse and inclusive workplace will support our vision for growth and outperforming the market. We continually review our approach to diversity and our aim is to have nurtured diverse employees across the business who are given the tools and opportunities to progress their career within Beazley. Employing individuals with wider perspectives and from a broader skill base we believe will lead to a more dynamic, innovative, responsive organisation in touch with changes and developments in our working environment.

We have a defined policy and strategy that will enable us to:

- nurture diverse individuals across all areas of the business and encourage them to grow into senior positions with our organisation;
- develop plans on how to best support diversity in a way that is both locally relevant and globally impactful;
- support, mentor and encourage individuals from diverse backgrounds to grow and develop within Beazley;
- have leadership and sponsorship of our vision at the most senior level of our organisation;
- regularly review our employment policies and practices. We expect our people to respect them and work with us to further enhance our diversity objectives; and
- ensure all employees receive equality of opportunity in recruitment, training, development, promotion and remuneration.

Key activities in 2014

The 2014 board review was conducted internally through questionnaires. No significant matters were identified and the committee concluded that the board is balanced and has appropriate skills and competencies. Some areas for process improvement were noted and the committee will oversee the completion of the action plan in 2015. Tasks which the board carried out in 2014 were to:

- review the performance of management and consider the board and committee succession plans;
- ensure that director development plans were implemented and that the board collectively received relevant training; and
- ensure board members were able to allocate sufficient time to the company to discharge their responsibilities effectively.

Letter from our chairman of the remuneration committee

Dear shareholder

In the following pages we set out the directors' remuneration report for 2014.

Last year we submitted our policy report to a binding vote, notwithstanding that as a non-UK company we were not required to do so. The committee was delighted with the level of support received and we are not proposing to make any changes to the policy this year. As such the policy approved last year remains in place and is reproduced in this year's directors' remuneration report for reference only.

The importance of talent at Beazley
Talent management remains one of the cornerstones of Beazley's business success, as we seek to recruit and retain people who rank among the best insurance professionals in the world. The main focus of our retention strategy is through our culture and shared values. Ensuring Beazley has a competitive remuneration mix that rewards sustainable performance remains important to our future success.

Remuneration policy and link to strategy
Our executive remuneration policy is governed by two guiding principles – alignment to shareholder interests and performance of the group. The following are some of the key features of our policy and the way that it is aligned to our strategy:
- five year performance – for a number of years now we have operated an LTIP where performance is measured over five years as well as three years. This longer term performance period means that out-turns are aligned with the long term performance of the business;
- NAVps growth – growth in NAVps is a key performance indicator for Beazley, and is the measure used for our LTIP. The framework is simple and aligned to shareholders' interests. For maximum awards to vest NAVps growth of 15% above the risk-free return must be sustained for five years; and
- risk – our remuneration structure incorporates a number of features which are aligned with risk. These include longer time horizons, deferral of bonus into shares and shareholding requirements. The committee receives an annual report from the chief risk officer on remuneration policy to ensure it is consistent with and promotes effective risk management.

The committee considers the overall package to be appropriate, responsible and balanced.

Changes during the year
In line with the revised UK Corporate Governance Code, for 2015, we are introducing clawback provisions for executive directors across all of our incentives. Our deferred bonus and LTIP awards already incorporate malus provisions, which were introduced a number of years ago.

There are no other significant changes to the operation of our policy.

During the year the committee considered the disclosure of our annual bonus performance framework. As a result we have significantly increased the level of detail provided to our shareholders. We believe that Beazley's annual bonus performance framework provides strong alignment to shareholders' interests and that this is evidenced by the extent to which bonus out-turns have historically aligned with our annual performance.

Salary increases
The average salary increase for 2015 for executive directors was 1.1%, which was lower than the average increase throughout the organisation.

Performance out-turns
Beazley delivered another strong performance for 2014 with a pre-tax profit of $261.9m and ROE of 17%. The remuneration out-turns, as reported in the single total figure of remuneration, reflect that performance. Bonus out-turns were lower compared to last year reflecting that, although group performance was strong, our ROE was marginally lower than last year. This is in line with our bonus framework. In terms of LTIP out-turns, the first tranche of our five year LTIP is due to vest during 2015, reflecting an excellent sustained NAVps outcome for shareholders of 16.7% p.a.

Shareholders
Each year the committee pays careful attention to shareholders' views, not only in terms of developing best practice, but also by considering the views and voting of our shareholders on director remuneration at Beazley. During the year we undertook some consultation to better understand our shareholders' views, and we were pleased with the responses we received. We continue to welcome our shareholders' views on our remuneration policies and practices.

Padraic O'Connor
Remuneration committee chairman

Directors' remuneration report

This report has been prepared by the remuneration committee ('the committee') of Beazley plc and approved by the board of Beazley plc. The report complies with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2013.

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

Directors' remuneration policy

This part of the report sets out Beazley's directors' remuneration policy which was approved by shareholders at the 2014 AGM. To provide consistency with the remainder of the directors' remuneration report, salaries shown are 2015 salaries. Service contract expiry dates have also been updated. The scenario charts relate to policy as applied for the first year in which the policy applied (2014). Since the policy report was approved by shareholders Beazley has introduced additional reclaim provisions and these are detailed in the annual remuneration report.

Remuneration policy table

The following table sets out descriptions of each component of executive director remuneration packages comprised in the Beazley directors' remuneration policy, and, at the bottom of the table, the policy for non-executive directors.

Executive directors

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Base salary	Salaries are set at a level to appropriately recognise responsibilities and to be broadly market competitive.	Salaries are normally reviewed annually. Salaries for 2015 are: • D A Horton: £443,500 • M L Bride: £310,000 • A P Cox: £332,800 • N P Maidment: £332,800 • C A Washbourn: £332,800	There is no maximum salary opportunity. Any salary increases will generally reflect our standard approach to all-employee salary increases across the group. Higher increases may be made in a range of circumstances where the committee considers that a larger increase is appropriate, including (but not limited to): • a new appointment • a change in role or adoption of additional responsibilities • development of the individual in the role • alignment to market levels.	None.

Directors' remuneration report *continued*

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Annual bonus	To link reward to short term financial performance and individual contribution. Additional alignment with shareholders' interests through the operation of bonus deferral.	Discretionary annual bonus to individuals. An incentive pool is generated by reference to group return on equity and awards are based upon individual performance. Portion generally deferred into shares for three years (between 0% and 37.5% of bonus) dependent on level of bonus. Deferred shares may have dividend equivalents until vesting. Deferred share awards are subject to a malus provision, whereby the committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development.	An individual overall cap of 400% of salary will apply. Cash bonuses will normally be capped at 250% of salary with any amount above this deferred into shares.	An incentive pool is calculated as a percentage of profit subject to a minimum return on equity. Individual payouts to executive directors are discretionary and take into account the individual's contribution and, where relevant, the performance of their division. For heads of divisions, a bonus may be awarded outside the incentive pool in circumstances where the performance of a division in relation to the group is very strong. While bonus awards are determined by reference to the profit pool, the bonus plan is discretionary and the committee may take into account any other factors it considers appropriate.

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
LTIP	To align the senior management team's interests to the long term performance of the group by setting performance targets over the longer term.	Awards of shares with performance conditions. Awards are normally in the form of nil-cost options with a ten-year term, but may also be in the form of a conditional award. LTIP shares may have dividend equivalents until vesting. Normally LTIP awards are subject to shareholding requirements to be built up over three years. LTIP awards may be forfeited if shareholding requirements are not met. LTIP awards from 2012 are subject to a malus provision. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development.	Awards of up to 200% of salary. For 2014, awards of 200% of salary for the CEO and 150% of salary for other executive directors.	Vesting of LTIP awards is dependent on net asset value per share (NAVps) performance against the risk-free rate of return. No more than 25% of the award may vest for threshold performance. A portion of the award is subject to performance over three years and a portion over five years.
Investment in underwriting	To align personal capital with underwriting performance.	Under the plan executive directors and selected staff may voluntarily defer part of their bonus into an underwriting syndicate. Capital commitments can be lost if underwriting performance is poor.	Payments are limited to the returns on the investment in the underwriting syndicate. The level of capital commitment is limited by the bonus opportunity.	The plan mirrors investment in an underwriting syndicate.
Benefits	To provide market levels of benefits.	Benefits include, but are not limited to, a company car or car allowance, season ticket, private medical insurance, death in service benefit and income protection insurance. Further benefits may be provided, if the committee considers it appropriate. Tax equalisation policies may apply.	There is no overall maximum as the cost of insurance benefits will vary depending on the individual's circumstances and the cost of relocation will vary depending upon the jurisdiction.	None.
Relocation benefits	To support Beazley's growth as an international business.	Benefits in the event of relocation may include, but are not limited to, relocation allowance, housing allowance and school fees.		

Directors' remuneration report *continued*

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Pension	To provide market levels of pension provision.	Current policy is to contribute to a defined contribution pension plan. An equivalent cash alternative may be offered. Legacy defined benefit pension arrangements are in place for certain executives (A P Cox, N P Maidment and C A Washbourn). Further service accruals ceased on 31 March 2006.	For defined contribution plans, maximum company contribution of 15% of salary. Legacy defined benefit pension arrangements will be honoured.	None.
SAYE	To create staff alignment with the group and promote a sense of ownership.	HMRC-approved monthly savings scheme facilitating the purchase of shares at a discount.	Monthly contribution limit up to the HMRC approved limit.	None.
US SAYE	To create staff alignment with the group and promote a sense of ownership.	US version of the SAYE, for US employees.	Monthly contribution limit at a level that is broadly in line with the UK SAYE plan.	None.
Other HMRC all-employee approved plans	To create staff alignment with the group and promote a sense of ownership.	Executive directors may participate in any all-employee HMRC approved share plans adopted by the company. Executive directors would participate on the same terms as all employees.	Limits in line with HMRC approved limits.	None.
Legacy matters Payments can also be made to executive directors under the following legacy remuneration arrangements. It is not intended that these components of remuneration policy will be used to grant any future awards.				
Marine share incentive plan (MSIP)	To align the head of the marine division with the sustained outstanding performance of the marine division.	A share award in 2013 for the head of marine made in two tranches: • 500,000 shares to vest after three years • 500,000 shares to vest after five years. Shares under award may have dividend equivalents until vesting. Awards are subject to a malus provision. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development.	1,000,000 shares.	The award is subject to pre-tax divisional return on equity (ROE) performance and continued employment, measured over three years (50%) and five years (50%): 20% vesting for 15% divisional ROE performance, 100% vesting for 25% divisional ROE performance, with straight line vesting between points.
Conditional awards	Conditional awards were made on 27 April 2009 at the time of M L Bride's recruitment. The 150,000 shares vest in four equal tranches on each of the third, fourth, fifth and sixth anniversaries.			

Non-executive directors

Non-executive directors' fees comprise payment of an annual basic fee and additional fees to reflect specific responsibilities, where applicable. No non-executive director participates in the group's incentive arrangements or pension plan.

Basic fee	Payment of a basic annual fee
Additional fees	Additional fees are paid to reflect additional responsibilities of certain non-executive directors, as follows: – senior independent director – audit and risk committee chairman – remuneration committee chairman – subsidiary board membership and chairmanship fees. Expenses incurred in the performance of non-executive duties for the company may be reimbursed or paid for directly by the company, including any tax due on the expenses. Total fees paid to non-executive directors will remain within the limit stated in the Articles of Association.

Clawback of awards via malus may apply where stated in the above table. Other elements of remuneration are not subject to recovery provisions. *(Note: Accurate at 26 March 2014 when the policy report was approved. Following approval further reclaim provisions have been implemented.)*

The committee may increase the proportion of bonus deferred into shares at any time.

LTIP and MSIP share awards shall be operated in accordance with the rules of the plan as approved by shareholders. In accordance with those rules the committee has discretion in the following areas:
- in the event of a variation of Beazley's share capital or a demerger, delisting, special dividend, rights issue or other similar event, which may, in the committee's opinion, affect the current or future value of shares, the number of shares subject to an award and/or any performance condition attached to awards, may be adjusted. Awards under Beazley's other share plans have similar adjustment provisions;
- the committee may determine that awards may be settled in cash;
- the committee may substitute or amend a performance condition if one or more events occur which cause the committee to consider that a substituted or amended condition would be more appropriate and would not be materially more or less difficult to satisfy; and
- the committee may determine the basis on which dividends will be calculated which may include notional reinvestment.

The committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out in this report where the terms of the payment were agreed before the policy came into effect, or at a time when the relevant individual was not a director of the company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes 'payments' includes the committee satisfying awards of variable remuneration and an award over shares is 'agreed' at the time the award is granted.

Performance measures and targets

Annual bonus plan

The pool calculation is based on the profit and ROE results for the financial year whilst the committee exercises its own judgement on the level of individual bonus awards. The committee believes this approach to the determination of bonuses creates alignment to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing.

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

Investment in underwriting

The Beazley staff underwriting plan provides for participants to contribute personal capital to Beazley syndicates. Selected staff are invited to participate through bonus deferral with an element of cash incentives 'at risk' as capital commitments.

Long term incentive plan

The long term incentive plan performance measure and targets are chosen to align with value creation for shareholders. Long term incentive plan awards are based on growth in net asset value per share (NAVps). This creates alignment to one of Beazley's key performance indicators.

Directors' remuneration report *continued*

The committee reviews the NAVps targets periodically to ensure they remain appropriate with reference to the internal business plan, the external environment and market practice.

In the event that NAVps were to become unsuitable as a performance measure in the opinion of the committee (for example due to a change in accounting standards) the committee would substitute a measure which followed broadly similar principles.

Differences in policy from broader employee population

The policy for executive directors follows the same broad principles in place for all employees in Beazley. Differences in policy for executive directors and senior management as compared to the broader employee population reflect different market levels for seniority, as well as their group responsibilities. For example, incentive performance conditions for executive directors and senior management are more closely aligned to group performance, whereas underwriters participate in incentive plans linked to the performance of their business area.

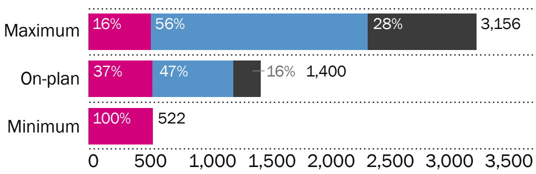
All employees in the group may participate in a defined contribution pension plan, and are offered benefits such as private medical insurance and permanent health insurance. Beazley also operates all-employee share plans to create staff alignment and promote a sense of ownership.

Illustrations of application of remuneration policy

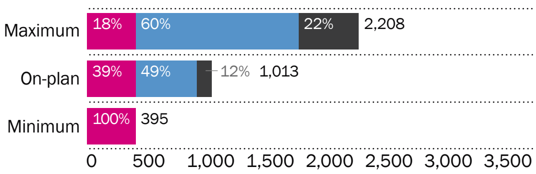
The charts below set out an illustration of the remuneration policy for 2014 in line with the remuneration policy above and include base salary, pension, benefits and incentives.

Note that, as prescribed by the legislation, the illustrations are based on initial award value and therefore do not reflect potential share price growth or any dividends received over deferral periods, which may impact the overall value of deferred annual and long term remuneration delivered.

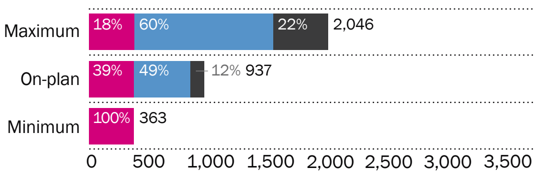
Chief executive officer (£'000)



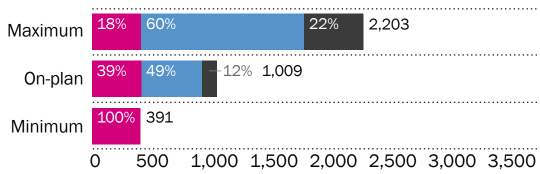
Chief underwriting officer (£'000)



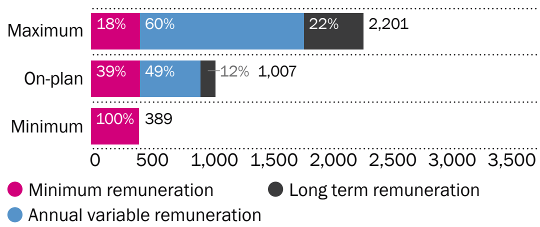
Group finance director (£'000)



Head of marine (£'000)



Head of specialty lines (£'000)



Element		'Minimum'	'On-plan'	'Maximum'
Fixed remuneration	Base salary	Annual base salary		
	Pension	15% of base salary		
	Benefits	Taxable value of annual benefits provided		
Annual variable remuneration (cash and deferred shares*)		0% of salary	150% of salary	400% of salary
Long term remuneration (LTIP)*		0% vesting	25% vesting	100% vesting

* Excludes share price growth and dividends.

Approach to recruitment remuneration

The committee would have regard to the following principles when agreeing the components of a remuneration package upon the recruitment of a new director:

- in order to facilitate the future success of the company it is important that we are able to recruit directors of the calibre required to deliver our strategic priorities. Although the company operates in a highly competitive market for executive talent, the committee remains conscious of the need to avoid paying more than is necessary on recruitment;
- the committee will, so far as practical, seek to align the remuneration package for any incoming executive with the policy set out in the table on page 88;
- on recruitment salaries will be set to take into account role and responsibilities. For interim positions a cash supplement may be paid rather than salary (for example a non-executive director taking on an executive function on a short term basis);
- the committee may, on appointing an executive director, need to 'buy out' remuneration arrangements forfeited on joining the company;
- any buyout would take into account the terms of the arrangements (e.g. form of award, performance conditions, timeframe) being forfeited in the previous package. The form of any award would be determined at the time and the committee may if necessary make use of LR 9.4.2 of the Listing Rules (for the purpose of buyout awards only). The committee would seek to structure buyout awards to be in line with Beazley's remuneration framework so far as practical. The overriding principle will be that any replacement buyout awards would be of comparable commercial value to the awards which have been forfeited;
- all buyout awards would normally be liable to forfeiture or 'clawback' on early departure. For executive directors early departure is defined as being within the first two years of employment;
- the maximum level of variable remuneration which may be granted in the first year (excluding buyouts) is in line with the aggregate maximums set out in the policy table. The committee retains the flexibility to determine that for the first year of appointment any annual bonus award will be subject to such conditions as it may determine; and
- where an executive is appointed from within the organisation, the normal policy of the company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an executive director is appointed following Beazley's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Service contracts and loss of office payment policy

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

It is company policy that such service contracts with executive directors contain notice periods, from the company or employee, of not more than 12 months. The company may at its absolute discretion elect to terminate an executive director's employment by making a payment in lieu of notice of the individual's salary for that period.

Subject to these notice requirements, there is no provision in the service agreements for compensation to be payable on early termination of the contract. The committee has discretion to structure any compensation payments in such a way as it deems appropriate taking into account the circumstances of departure. Any payments of compensation will be subject to negotiation and the group policy includes consideration of appropriate mitigation, including phasing of payments.

The current contracts in place for executive directors are as follows:

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

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

Directors' remuneration report *continued*

In the event of a director's departure any outstanding share awards will be treated in accordance with the relevant plan rules. The following principles apply for the treatment of remuneration elements following loss of office for a director:

Remuneration element	Treatment upon loss of office
Bonus	There is no automatic entitlement to annual bonus. Taking into account the circumstances of leaving, the committee retains the discretion to award a bonus in respect of performance in the financial year with appropriate consideration of time pro-rating.
Deferred shares	If a director ceases office or employment with the group any unvested awards will lapse unless the individual is a good leaver. Good leaver circumstances are cessation by reason of injury, ill-health, permanent disability or retirement (with the agreement of the employing company) and, if the committee so determines, redundancy, the sale of the individual's employing company or business out of the group, or such other circumstances as the committee may determine. In these good leaver circumstances awards may vest in full or be time pro-rated, and be delivered on cessation or at the normal time. If a director dies his or her awards will vest in full.
Conditional shares	For the conditional awards made at the time of M L Bride's recruitment, good leaver circumstances are as for deferred shares (above) except that the committee may determine the extent and the terms on which shares may vest.
Staff underwriting participation plan	For leavers, profit results are payable in respect of years of account commencing before cessation. A participant receives repayment of notional capital invested reduced by any loss result for the relevant year of account.
2009 LTIP	If a director ceases office or employment with the group any unvested awards will lapse unless the individual is a good leaver. If a participant dies his or her personal representatives may exercise his or her awards. Good leavers are those participants who leave by reason of injury, ill-health, disability, retirement (with the agreement of the employing company), the sale of the individual's employing company or business out of the group or such other circumstances as the committee may determine. For good leavers awards are time pro-rated and the performance condition is tested at cessation.
2012 LTIP and MSIP	If a director ceases office or employment with the group any unvested awards will lapse unless the individual is a good leaver. An individual is a good leaver if employment ceases because of death, ill-health, injury, disability, the sale of the individual's employing company or business out of the group or for any other reason at the committee's discretion (except where a participant is dismissed lawfully without notice). Awards will vest on the normal vesting date, unless the committee determines that awards should vest at the time the individual ceases employment. If the participant dies awards will vest as soon as practicable after the date of death. Awards will vest taking into account the satisfaction of any performance condition and, unless the committee determines otherwise, the period of time that has elapsed since the award was granted until the date of cessation of employment.
Pension	The director will be eligible to receive the standard 15% of salary contribution to the defined contribution pension plan during the notice period, or cash equivalent. Under the Beazley Furlonge Limited Final Salary Pension Scheme, on early retirement the director receives a pension which is reduced to reflect early payment in accordance with the rules of the scheme.
HMRC approved all-employee plans (or equivalent overseas plans)	Leavers will be treated in accordance with the approved plan rules.
Recruitment awards under LR 9.4.2	Were a buyout award to be made under LR 9.4.2 then the leaver provisions would be determined at the time of award.

In the event of a change of control or winding up of the company, treatment of share awards will be in accordance with the relevant plan rules.

Non-executive directors' fee policy and service contracts ▪

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

	Commencement date of appointment	Expires
G P Blunden	1 Jan 2010	AGM 2016
A D Crawford-Ingle	27 Mar 2013	AGM 2016
D Holt	21 Jul 2011	AGM 2018
P J O'Connor	20 Mar 2009	AGM 2016
V J Sheridan	9 Jun 2009	AGM 2016
K P Sroka	12 Nov 2010	AGM 2017
R A W Tolle	6 Dec 2010	AGM 2017

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

Consideration of conditions elsewhere in the company

As part of the regular cycle, the committee is informed of pay and employment conditions of wider employees in the group and takes these into account when determining the remuneration for executive directors. While the review includes various statistics on the outcome of the wider employee pay review, the review does not currently include any direct comparison measures between executive directors and wider employee pay. The company does not consult with employees on executive director remuneration.

Consideration of shareholders views

The remuneration committee also regularly reviews guidance from shareholder advisory bodies such as the Investment Association, NAPF and ISS. Recent changes to our policy such as the introduction of a bonus cap have been incorporated into Beazley's policies as a result of these reviews. The committee undertook a gap analysis of Beazley policy against the guidance from these bodies in May 2013.

The committee has consulted with shareholders on a number of occasions regarding remuneration policy, and shareholder views were taken into account during the formulation of policy.

Minor changes

The committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax, or administrative purposes, or to take account of a change in legislation) without obtaining shareholder approval for such amendments.

Annual remuneration report

This part of the report sets out the remuneration out-turns for 2014 (and how these relate to our performance in the year) as well as details of the operation of our policy for 2015.

Remuneration principles

The remuneration committee has oversight of the remuneration policy. The general philosophy underlying the reward strategy for executive directors is the same as that applied to all other employees. Pay and employment conditions elsewhere in the company and data on comparable positions in other similar organisations are taken into consideration when determining executive directors' remuneration. The main aim of the policy is to ensure that management and staff are remunerated fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel.

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

Directors' remuneration report *continued*

Elements of remuneration

Base salary		• Salary increases generally in line with all-employee increases
Benefits		• Benefits include private medical insurance, travel insurance, company car or monthly allowance
Pension		• Defined contribution pension plan or cash equivalent
Annual bonus	Deferral into shares Deferral into underwriting	• Discretionary annual bonus from an incentive pool generated by reference to return on equity and awarded based on individual performance
Long term incentive plan		• Three and five year LTIP time horizons • Performance against long term NAVps targets
Shareholding guidelines		• LTIP awards may be forfeited if shareholding guidelines aren't met

Risk and reward at Beazley

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

Features aligned with risk considerations

Share deferral	A portion of bonus is normally deferred into shares for three years. These deferred shares, together with shares awarded under the LTIP, mean that a significant portion of total remuneration is delivered in the form of shares deferred for a period of years.
Extended performance periods	A portion of the LTIP has performance measured over an extended five-year period, in line with the Walker recommendations and FCA guidelines.
Shareholding requirements	Executive directors are expected to build up and maintain a shareholding of 150% of salary (200% for the CEO). LTIP awards may be forfeited if shareholding requirements are not met.
Investment in underwriting	Management and underwriters may defer part of their bonuses into the Beazley staff underwriting plan, providing alignment with capital providers. Capital commitments can be lost if underwriting performance is poor.
Underwriters' remuneration aligned with profit achieved	Under the profit related bonus plan payments are aligned with the timing of profits achieved on the account. For long tail accounts this may be in excess of six years. If the account deteriorates then payouts are 'clawed back' through adjustments to future payments. From 2012 onwards any new profit related pay plans may be at risk of forfeiture or reduction if, in the opinion of the remuneration committee, there has been a serious regulatory breach by the underwriter concerned, including in relation to the group's policy on conduct risk.
Clawback and malus of deferred and LTIP shares	For deferred share awards and LTIP awards (from 2012) malus provisions were introduced. For LTIP awards from 2015 and deferred shares in respect of 2015, clawback provisions will also apply.

Single total figure of remuneration ▪

The table below sets out the single figure of total remuneration for executive directors for the financial years ending 31 December 2014 and 31 December 2013. The figures in the table reflect the following:

- salaries for 2014 increased by an average of 2.2% which was below the average increase for all-employees;
- annual bonus out-turns were generally lower than last year. Although Beazley delivered another strong performance in 2014, ROE was lower; and
- the increase in total remuneration in 2014 reflects the impact of the five year LTIP tranche vesting for the first time (as explained on the next page).

Executive directors

		Fixed pay			Pay for performance				
£		Salary	Benefits	Pension	Cash bonus	Bonus deferred into shares	Total annual bonus	LTI	Total remuneration
M L Bride	2014	306,000	11,413	45,900	560,000	240,000	800,000	846,587	2,009,900
	2013	300,000	11,377	45,000	533,000	267,000	800,000	379,906	1,536,283
A P Cox[1]	2014	329,500	181,048	49,425	700,000	300,000	1,000,000	846,587	2,406,560
	2013	320,000	102,537	48,000	600,000	300,000	900,000	379,906	1,750,443
D A Horton	2014	439,110	17,179	65,867	910,000	390,000	1,300,000	1,757,053	3,579,209
	2013	430,500	16,852	64,575	1,076,250	523,750	1,600,000	810,465	2,922,392
N P Maidment	2014	329,500	16,467	49,425	700,000	300,000	1,000,000	1,003,297	2,398,689
	2013	323,000	16,336	48,450	800,000	400,000	1,200,000	455,886	2,043,672
C A Washbourn	2014	329,500	12,188	49,717	700,000	300,000	1,000,000	1,003,297	2,394,702
	2013	323,000	11,967	48,742	800,000	400,000	1,200,000	455,886	2,039,595

1 Benefits for Mr Cox included allowance of £158,004 in respect of his secondment in the US. This included housing allowance of £84,050 and tax gross up of the benefit of £68,215.

Non-executive directors

£		Total fees[1]
G P Blunden	2014	77,750
	2013	76,250
A D Crawford-Ingle[2]	2014	87,250
	2013	65,302
D Holt	2014	161,500
	2013	158,250
P J O'Connor[3]	2014	74,395
	2013	68,952
V J Sheridan[3]	2014	60,081
	2013	58,871
K P Sroka	2014	54,750
	2013	53,750
R A W Tolle	2014	79,000
	2013	77,500

1 Other than for the chairman, fees include fees paid for chairmanship of the audit and risk and remuneration committees, and for the role of senior independent director, as well as fees, where relevant, for membership of the subsidiary boards of Beazley Furlonge Limited (BFL) and Beazley Re Limited and the chairmanship of the BFL audit and risk committee.

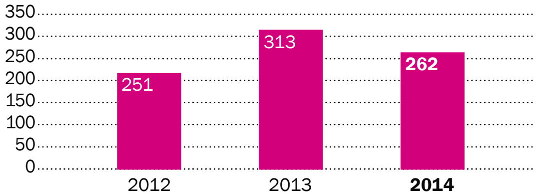
2 Mrs Crawford-Ingle was appointed to the board on 27 March 2013 and the figure in the table above for 2013 represents her fees from this date.

3 For Mr O'Connor and Mr Sheridan, their non-executive director fee was based on €92,250 (2013: €85,500) and €74,500 (2013: €73,000) respectively and has been converted into sterling for this table at the average exchange rate of 1.24 (2013: the fee was converted into £72,458 and £61,864 respectively at the average exchange rate in 2013 of 1.18).

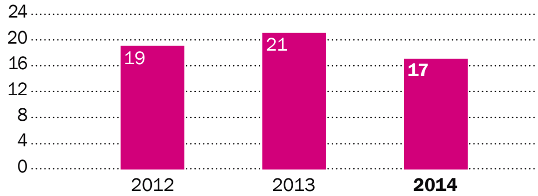
Directors' remuneration report *continued*

Performance charts

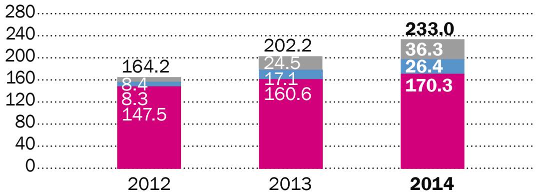
Profit before tax ($m)



Return on equity (%)

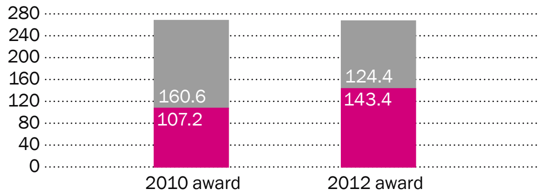


Net assets and cumulative dividend per share (p)



- Special dividend
- Interim and second interim dividend
- Net asset per share

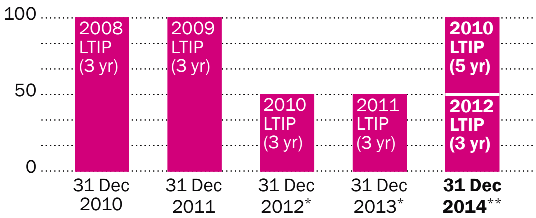
Share price (p)



- Share price at grant
- Share price appreciation

The chart below illustrates the impact of transitioning to a five year time horizon for the LTIP. Prior to 2010 awards were based 100% on three year performance, whereas from 2010 the LTIP time horizons were extended so that awards were based 50% on three year performance and 50% on five year performance. As illustrated in the diagram, this means that for 2014, a comparison of the 2014 LTIP out-turn with the 2013 LTIP out-turn is not on a like-for-like basis.

Award vesting opportunity (%)



* In 2013 and 2014 Beazley were transitioning to a 50% three year, 50% five year structure, resulting in only half of the normal award vesting opportunity (three year portion only).

**2014 is the first year in which a five year tranche may vest, restoring award vesting opportunity to the normal level.

Salary ▪

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

The average salary increase in 2014 for executive directors was 2.2%, which was below the average salary increases across the group.

For 2015, the average salary increase for executive directors is 1.1%, which was below the average salary increases across the group.

The base salaries for 2014 and 2015 are as set out below:

	2014 base salary £	2015 base salary £	Increase %
M L Bride	306,000	310,000	1.3%
A P Cox	329,500	332,800	1.0%
D A Horton	439,110	443,500	1.0%
N P Maidment	329,500	332,800	1.0%
C A Washbourn	329,500	332,800	1.0%

Benefits ▪

Benefits include private medical insurance for the director and his immediate family, income protection insurance, death in service benefit at four times annual salary, travel insurance, health-club membership, season ticket and the provision of either a company car or a monthly car allowance. Adrian Cox is on secondment in the US and his benefits also include relocation and expatriate benefits, as set out in the notes to the single total figure of remuneration table.

Annual bonus plans ▪

The enterprise bonus plan is a discretionary plan in which all employees are eligible to participate. The framework for determining bonuses is as follows:
- a percentage of profit is allocated to a bonus pool subject to a minimum group return on equity; and
- the percentage of profit increases for higher levels of return on equity.

Recommended awards to individuals from the available pool are then determined by taking into account performance based on each individual's contribution to the group including a review of performance against individual objectives. For heads of the business divisions divisional performance is also taken into account. The bonus is discretionary and, rather than a prescriptive formulaic framework, the committee considers wider factors in its deliberations at the end of the year, for example quality of profit and risk considerations.

In determination of awards, the committee will not necessarily award the enterprise bonus pool in aggregate (i.e. the sum of the bonus awards may be less than the enterprise bonus pool).

For heads of divisions a bonus may be awarded outside of the incentive pool in circumstances where the performance of a division in relation to the group is very strong.

The approach to the calculation of bonuses is aligned to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing. The committee reviews the bonus pool framework each year to ensure it remains appropriate, taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors.

Performance out-turn for 2014

For 2014, the process for determining bonuses was as follows:
- ROE for 2014 was 17% and the overall enterprise bonus pool (in which executive directors as well as other senior employees participate) was calculated based on this. The risk-free return was set at 1% taking into account the yield on US treasuries of two to five year maturities;
- the committee then considered the individual bonus award for the executive directors and other senior employees within the committee's remit. In determining the bonus award for each individual the committee took into account the individual's contribution including, where relevant, the performance of their division; and
- in considering individual awards in respect of executive directors for 2014, the committee had regard to the following broad framework:

ROE performance hurdles	Guideline/illustrative bonus award as a % of maximum
RFR	0%
RFR +3%	12.5%
RFR +10%	37.5%
RFR +17.5%	75%
RFR +25%	100%

These are indicative only and based on broad group results. Within the pool framework bonus out-turns may be higher or lower taking into account divisional, strategic and personal performance.

Directors' remuneration report *continued*

The framework on page 95 is used by the committee as a broad guideline rather than being formulaic and applies to a broader group of executives than board directors. A key principle of the process is that the committee exercises its judgement in determining individual awards taking into account the individual's contribution and performance. In particular, there may be a diverse spread of returns earned across the various divisions within the business which will be reflected in bonus out-turns achieved.

Corporate achievements for the year included the following:
- the delivery of profit after tax of $217.8m, and the return of $212.6m to shareholders by way of dividends;
- delivery of growth in our gross premiums written of 3% in a market where premium rates were under increasing pressure;
- acceleration of growth in the US in line with our strategic objective, where gross premiums written grew 19% in 2014; and
- continued focus on attracting and retaining the best talent, with the recruitment of some of the top underwriting talent within the property market to succeed Jonathan Gray and strengthen the team.

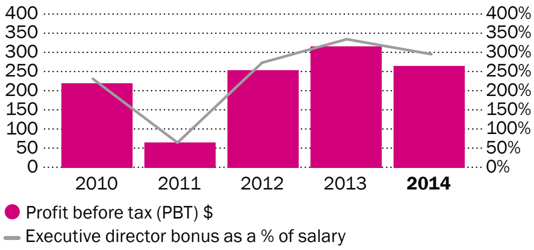
While the specific individual objectives of the executive directors are considered commercially sensitive the following provides details of some of the executive director achievements which the committee took into account:
- the marine division continues to consistently deliver excellent levels of profit whilst diversifying the portfolio through the attraction of new underwriters;
- the US strategic initiative has benefited from increased leadership and focus, with US onshore premiums increasing from $451.8m in 2013 to $537.0m in 2014; and
- continued effort on Solvency II has ensured we are well placed for the new risk and capital framework that is due to be implemented in 2016.

The resultant bonuses were as follows:

	Bonus (delivered a mix of cash and deferred shares)	% of salary
M L Bride	£800,000	261%
A P Cox	£1,000,000	303%
D A Horton	£1,300,000	296%
N P Maidment	£1,000,000	303%
C A Washbourn	£1,000,000	303%

The following table and graph sets out the out-turn for 2014 against performance and illustrates the way in which bonuses over time reflect profit and ROE performance.

Average executive director bonus payout (% of salary)



	Pre-tax profit	Post-tax ROE	Average executive director bonus as a percentage of salary
2014	**$262m**	**17%**	**c.294%**
2013	$313m	21%	c.333%
2012	$251m	19%	c.272%
2011	$63m	6%	c.64%
2010	$217m	19%	c.230%

Bonus deferral ▪

A portion of the bonus will generally be deferred into shares for three years. The deferral will range from 0% to 37.5% dependent on the level of bonus. Deferred shares are generally subject to continued employment. Deferred share awards include a malus provision. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development.

A portion of bonus may also be deferred under the investment in underwriting plan, and this capital can be lost if underwriting performance is poor. No such deferral was made in 2014 (see investment in underwriting on page 99 for further details).

For 2014, the portion of each director's annual bonus deferred into shares was as follows:

	Deferred into shares
M L Bride	£240,000
A P Cox	£300,000
D A Horton	£390,000
N P Maidment	£300,000
C A Washbourn	£300,000

Long term incentive plan (LTIP) ▪

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

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

Given the five year performance period for 50% of the award, as well as the significant shareholding requirement and additional clawback provisions (which extend to seven years from date of award), the committee considers that the LTIP is significantly aligned to long term performance. Against that background it does not consider that further holding periods are required.

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

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

Directors' remuneration report *continued*

Awards vesting in respect of the year

The LTIP awards shown in the single total figure of remuneration for 2014 include:

- the second tranche of awards granted on 18 February 2010. These are due to vest on 18 February 2015, subject to the achievement of a NAVps growth performance condition over the five years ended 31 December 2014; and
- the first tranche of awards granted on 30 March 2012. These are due to vest on 30 March 2015, subject to the achievement of a NAVps growth performance condition over the three years ended 31 December 2014.

The NAVps performance conditions for these awards are as follows:

2010 awards – second tranche (five years)

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

Actual NAVps growth achieved in the five years to 31 December 2014 was 16.7% p.a. which resulted in 100% of awards vesting.

2012 awards – first tranche (three years)

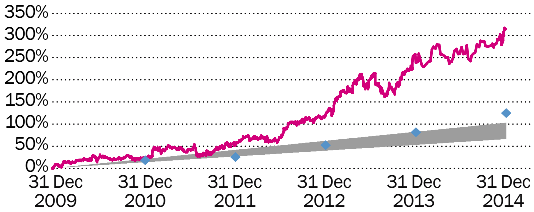
NAVps performance	% of award vesting
NAVps growth < average risk-free rate +7.5% p.a.	0%
NAVps growth = average risk-free rate +7.5% p.a.	10%
NAVps growth = average risk-free rate +10% p.a.	25%
NAVps growth = risk-free rate +15% p.a.	100%
Straight-line vesting between points	

Actual NAVps growth achieved in the three years to 31 December 2014 was 20.4% p.a. which resulted in 100% of awards vesting.

In both cases the results were independently calculated by Deloitte LLP.

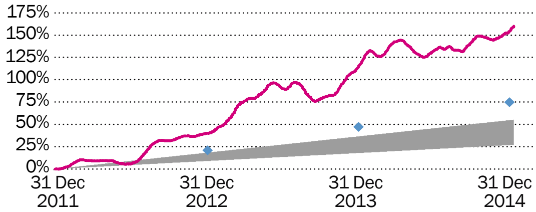
The graph below illustrates Beazley's NAVps and TSR performance over the period, where the shaded area represents the LTIP NAVps growth target range for awards to vest.

LTIP performance 2010-2014 NAV and TSR growth



- NAV target range (RFR +10% p.a. to RFR +15% p.a.)
- TSR growth (1 month average)
- NAV growth (including dividends)

LTIP performance 2012-2014 NAV and TSR growth



- NAV target range (RFR +7.5% p.a. to RFR +15% p.a.)
- TSR growth (1 month average)
- NAV growth (including dividends)

Awards for 2014

During 2014 long term share awards with a face value equal to 150% of salary were granted to executive directors (200% for CEO), as shown in the table below.

Awards for 2015

It is intended that the LTIP awards for 2015 will be in line with those granted in 2014 (see page 98).

Share awards granted during the year

Individual	Type of interest	Basis on which award made	Number of shares awarded	Face value of shares (£)[1]	% Vesting at threshold	Performance period end Three years (50%)	Performance period end Five years (50%)
LTIP							
M L Bride	Nil cost option (LTIP)	150% of salary	168,051	459,000	10%	31/12/2016	31/12/2018
A P Cox	Nil cost option (LTIP)	150% of salary	180,957	494,250	10%	31/12/2016	31/12/2018
D A Horton	Nil cost option (LTIP)	200% of salary	321,539	878,220	10%	31/12/2016	31/12/2018
N P Maidment	Nil cost option (LTIP)	150% of salary	180,957	494,250	10%	31/12/2016	31/12/2018
C A Washbourn	Nil cost option (LTIP)	150% of salary	180,957	494,250	10%	31/12/2016	31/12/2018
Deferred bonus *(in respect of 2013 bonus)*							
M L Bride	Deferred shares	N/A	97,755	267,000	N/A	N/A	N/A
A P Cox	Deferred shares	N/A	109,837	300,000	N/A	N/A	N/A
D A Horton	Deferred shares	N/A	191,758	523,750	N/A	N/A	N/A
N P Maidment	Deferred shares	N/A	146,450	400,000	N/A	N/A	N/A
C A Washbourn	Deferred shares	N/A	146,450	400,000	N/A	N/A	N/A

1 The face value of shares awarded was calculated using the three day average share price prior to grant, which was 273.13p.

The performance condition for LTIP awards was as follows:

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

Dilution

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

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

Investment in underwriting

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

The group funds the capital for the plan. The individual capital commitment is then funded through individual bonus deferral. The aim is for individuals to fund their capital within three years.

To date over 200 employees of the group have committed to put at risk £9.6m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £8.4m has already been deferred from the bonuses awarded.

Directors' remuneration report *continued*

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

	Total bonuses deferred and at risk £	2013 year of account underwriting capacity £	2014 year of account underwriting capacity £	2015 year of account underwriting capacity £
M L Bride	199,000	400,000	400,000	400,000
A P Cox	199,000	400,000	400,000	400,000
D A Horton	199,000	400,000	400,000	400,000
N P Maidment	199,000	400,000	400,000	400,000
C A Washbourn	199,000	400,000	400,000	400,000

The executive directors are currently fully funded in the plan and no further bonus deferral was made in 2014.

Malus and clawback

For incentives in respect of 2015 new clawback provisions will operate. Under these provisions the committee has the discretion to require clawback in certain circumstances for a defined period following payment or vesting.

Annual bonus and LTIP awards may be subject to clawback in the event of:
- material misstatement of results;
- gross misconduct; and
- factual error in calculating vesting or award.

Annual bonus awards may be subject to clawback for a period of three years following payment of the cash bonus. These clawback provisions will also extend to any deferred shares delivered before the end of the three year period and to the notional investment where the bonus is voluntarily deferred as notional capital into the investment in underwriting plan (excluding any returns on the investment which will not be subject to clawback).

LTIP awards may be subject to clawback for a period of two years following vesting.

Malus provisions have applied to the LTIP and deferred share plan for a number of years. The committee has the discretion to reduce or withhold an award in circumstances of:
- conduct which justifies summary dismissal;
- an exceptional development which has a material adverse impact on the company, including but not limited to reputational damage, material failure of risk management, a material misstatement or any significant sanction from a government agency or regulatory authority; or
- where the committee considers it is necessary to comply with a law or regulatory requirement.

Pensions ▪

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

Following changes to pension tax legislation that came into force from April 2011, an equivalent cash alternative may be offered if an individual exceeds the lifetime or annual allowance.

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

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

	Accrued benefit at 31 Dec 2014 £	Increase in accrued benefits excluding inflation (A) £	Increase in accrued benefits including inflation £	Transfer value of (A) less directors' contributions £	Transfer value of accrued benefits at 31 Dec 2014 £	Increase in transfer value less directors' contributions £	Normal retirement date
A P Cox	12,132	–	323	–	323,935	102,051	12 Mar 2031
N P Maidment	41,415	–	1,100	–	1,248,644	366,644	21 Oct 2022
C A Washbourn	18,407	–	489	–	587,851	171,565	26 Oct 2020

Under the Beazley Furlonge Limited Final Salary Pension Scheme, on early retirement the director receives a pension which is reduced to reflect early payment in accordance with the rules of the scheme.

No other pension provisions are made.

Payments for loss of office

No loss of office payments have been made in the year.

External appointments

Andrew Horton has been appointed as a non-executive director of Man Group plc, with effect from 3 August 2013, and he retains the fees in respect of this appointment. Fees for the year were £80,000.

Non-executive directors' fees

The fees of non-executive directors are determined by the board. When setting fee levels consideration is given to levels in comparable companies for comparable services in addition to the time commitment and responsibilities of the individual director. No non-executive director is involved in the determination of their fees. The board reviews fees annually.

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

Non-executive directors are appointed for fixed terms, normally for three years, and may be reappointed for future terms. Non-executive directors are typically appointed through a selection process that assesses whether the candidate brings the desired competencies 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 may include:
- insurance sector expertise;
- asset management skills;
- public company and corporate governance experience;
- risk management skills;
- finance skills; and
- IT and operations skills.

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

Approach to remuneration for employees other than directors

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

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

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

Directors' remuneration report *continued*

Underwriter bonus plan – profit related pay plan

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

The objective of the plan is to align the interests of the group and the individual through aligning an underwriter's reward to the long term profitability of their portfolio. Underwriters who have significant influence over a portfolio may be offered awards under the plan. There is no automatic eligibility. Profit related pay is awarded irrespective of the results of the group. Awards are capped.

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

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

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

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

Support bonus plan

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

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

SAYE

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

US SAYE

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

Retention shares

The retention plan may be used for recruitment or retention purposes. Any awards vest at 25% per annum over years three to six. Policy going forward is that existing executive directors do not participate in this plan and no executive directors have subsisting legacy awards outstanding.

CEO pay increase in relation to all employees

	Percentage change in remuneration from 31/12/2013 to 31/12/2014		
	Percentage change in base salary %	Percentage change in benefits %	Percentage change in annual bonus %
CEO	1.0%	2.0%	-19%
All employees	2.5%	3.7%	-2%

Note: Salary and bonus is compared against all employees of the group. Benefits (including pension) are compared against all UK employees, reflecting the group's policy that benefits are provided by reference to local market levels.

Statement of directors' shareholding and share interests ▪

LTIP participants are expected to build a shareholding in Beazley equal to their annual award level. The CEO has a shareholding requirement of 200% of salary and other executive directors have a shareholding requirement of 150% of salary. LTIP awards may be forfeited if shareholding requirements are not met. All executive directors have met their shareholding requirements.

The table below shows the total number of directors' interests in shares as at 31 December 2014 or date of cessation as a director.

		Unvested awards			Vested awards	
Name	Number of shares owned (including connected persons)	Conditional shares not subject to performance conditions (deferred shares and retention shares)	Nil cost options subject to performance conditions (LTIP and MSIP awards)	Options over shares subject to savings contracts (SAYE)	Unexercised nil cost options	Options exercised in the year
G P Blunden	50,000	–	–	–	–	–
M L Bride	350,000	235,585	989,819	9,665	–	275,819
A P Cox	658,232	239,550	1,017,417	–	–	275,998
D Holt	50,000	–	–	–	–	–
D A Horton	1,580,087	384,974	1,999,502	12,454	–	495,854
A D Crawford-Ingle	20,850	–	–	–	–	–
N P Maidment	3,907,523	292,207	1,130,487	9,665	–	323,661
P J O'Connor	30,000	–	–	–	–	–
V J Sheridan	20,000	–	–	–	–	–
K P Sroka	–	–	–	–	–	–
R A W Tolle	60,000	–	–	–	–	–
C A Washbourn	446,096	336,282	2,130,487	12,454	–	361,340

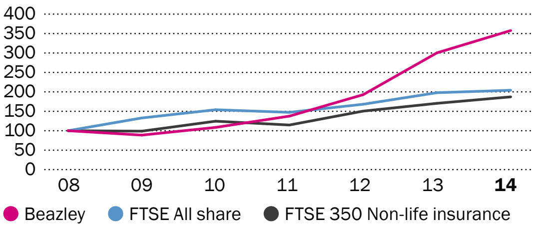
No changes in the interests of directors have occurred between 31 December 2014 and 4 February 2015.

CEO pay versus performance

The following graph sets out Beazley's six year total shareholder return performance to 31 December 2014, compared with the FTSE All Share and FTSE 350 Non-Life insurance indices. These indices were chosen as comparators as they comprise companies listed on the same exchange and, in the case of the Non-Life Insurance index, the same sector as Beazley.

Total shareholder return performance

Value of £100 invested on 31 December 2008



Directors' remuneration report *continued*

Historical CEO payouts

Year	CEO single figure of total remuneration	Annual variable award (% of maximum opportunity)*	Long term incentives vesting (% of maximum opportunity)
2009	£1,458,131	71%	50%
2010	£1,525,102	63%	50%
2011	£1,008,669	14%	99%
2012	£2,339,573	71%	84%
2013	£2,922,392	93%	100%
2014	**£3,579,209**	**74%**	**100%**

* Note: An individual overall cap of 400% of salary was introduced from 2013. Prior to this date and in line with industry practice, there was no formal limit on individual bonuses. To enable comparison, the above graphs assume that a maximum annual variable award of 400% of salary also applied for years prior to 2013.

Relative importance of spend on pay

The following table shows the relative spend on pay compared to distributions to shareholders:

	Overall expenditure on pay	Shareholder distributions (dividends in respect of the year)
2013	$179.3m	$209.2m
2014	$199.2m	$167.9m

Remuneration committee

The committee consists of only non-executive directors and during the year the members comprised Padraic O'Connor (chairman), George Blunden, Dennis Holt and Ken Sroka. The board views each of these directors as independent. The committee met six times during the year.

The committee considers the individual remuneration packages of the chief executive, executive directors and executive committee members. It also has oversight of the salary and bonus awards of individuals outside the executive committee who either directly report to executive committee members or who have basic salaries over £200,000, as well as the overall bonus pool and total incentives paid by the group. The terms of reference of the committee are available on the company's website. During the year the committee was advised by remuneration consultants from Deloitte LLP. Total fees in relation to executive remuneration consulting were £122,600. Deloitte LLP also provided advice in relation to tax, assurance support and share schemes.

Deloitte LLP were appointed by the committee. Deloitte LLP is a member of the Remuneration Consultants' Group and as such voluntarily operates under code of conduct in relation to executive remuneration consulting in the UK. The committee agrees each year the protocols under which Deloitte LLP provides advice to support independence. The committee is satisfied that the advice received from Deloitte LLP has been objective and independent.

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

Statement of shareholder voting

There were two remuneration related shareholder votes at the 2014 AGM and the voting outcomes were as follows:

	Votes for	% for	Votes against	% against	Total votes cast	Votes discretionary	Votes withheld (abstentions)
2013 annual remuneration report	277,418,208	83.3%	55,492,832	16.7%	332,939,363	28,323	78,419,932
Remuneration policy	404,008,553	98.2%	7,297,769	1.8%	411,334,645	28,323	24,650

The committee was pleased with the support received from shareholders for the remuneration policy. During the year the committee undertook some consultation to better understand our shareholders' views and we were pleased with the responses we received. The lower voting out-turn for the 2013 annual remuneration report largely related to legacy matters. The committee is committed to maintaining an ongoing dialogue with shareholders on remuneration matters.

Directors' share plan interests ■

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

	Outstanding options at 1 Jan 2014	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2014	Closing share price on date of exercise (£)	Earliest exercise date	Expiry date
M L Bride								
Deferred bonus:								
14 Feb 2011	94,197	–	94,197	–	–	2.6850	14/02/2014	14/03/2014
13 Feb 2012	12,181	–	–	–	12,181	–	13/02/2015	13/03/2015
13 Feb 2013	88,149	–	–	–	88,149	–	13/02/2016	13/03/2016
11 Feb 2014	–	97,755	–	–	97,755	–	11/02/2017	11/03/2017
LTIP (see notes):								
18 Feb 2010 – 5 year	174,907	–	–	–	174,907	–	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	144,122	–	–	–	144,122	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	144,122	–	144,122	–	–	2.6850	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	141,183	–	–	–	141,183	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	141,184	–	–	–	141,184	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	110,186	–	–	–	110,186	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	110,186	–	–	–	110,186	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	–	84,026	–	–	84,026	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	–	84,025	–	–	84,025	–	11/02/2017	11/02/2024
Conditional share awards:								
27 Apr 2009	75,000	–	37,500	–	37,500	2.4430	27/04/2012	27/05/2015
SAYE:								
2013	5,311	–	–	–	5,311	–	01/07/2016	01/01/2017
2014	–	4,354	–	–	4,354	–	01/07/2017	01/01/2018
A P Cox								
Deferred bonus:								
14 Feb 2011	131,876	–	131,876	–	–	2.6850	14/02/2014	14/03/2014
13 Feb 2012	12,181	–	–	–	12,181	–	13/02/2015	13/03/2015
13 Feb 2013	117,532	–	–	–	117,532	–	13/02/2016	13/03/2016
11 Feb 2014	–	109,837	–	–	109,837	–	11/02/2017	11/03/2017
LTIP (see notes):								
18 Feb 2010 – 5 year	174,907	–	–	–	174,907	–	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	144,122	–	–	–	144,122	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	144,122	–	144,122	–	–	2.6850	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	141,183	–	–	–	141,183	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	141,184	–	–	–	141,184	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	117,532	–	–	–	117,532	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	117,532	–	–	–	117,532	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	–	90,479	–	–	90,479	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	–	90,478	–	–	90,478	–	11/02/2017	11/02/2024

Directors' remuneration report *continued*

	Outstanding options at 1 Jan 2014	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2014	Closing share price on date of exercise (£)	Earliest exercise date	Expiry date
D A Horton								
Deferred bonus:								
14 Feb 2011	188,394	–	188,394	–	–	2.6850	14/02/2014	14/03/2014
13 Feb 2012	16,918	–	–	–	16,918	–	13/02/2015	13/03/2015
13 Feb 2013	176,298	–	–	–	176,298	–	13/02/2016	13/03/2016
11 Feb 2014	–	191,758	–	–	191,758	–	11/02/2017	11/03/2017
LTIP (see notes):						–		
18 Feb 2010 – 5 year	363,207	–	–	–	363,207	–	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	307,460	–	–	–	307,460	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	307,460	–	307,460	–	–	2.6850	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	292,825	–	–	–	292,825	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	292,826	–	–	–	292,826	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	210,823	–	–	–	210,823	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	210,822	–	–	–	210,822	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	–	160,770	–	–	160,770	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	–	160,769	–	–	160,769	–	11/02/2017	11/02/2024
SAYE:								
2012	8,100	–	–	–	8,100	–	01/07/2015	01/01/2016
2014	–	4,354	–	–	4,354	–	01/07/2017	01/01/2018
N P Maidment								
Deferred bonus:								
14 Feb 2011	150,715	–	150,715	–	–	2.6850	14/02/2014	14/03/2014
13 Feb 2012	13,534	–	–	–	13,534	–	13/02/2015	13/03/2015
13 Feb 2013	132,223	–	–	–	132,223	–	13/02/2016	13/03/2016
11 Feb 2014	–	146,450	–	–	146,450	–	11/02/2017	11/03/2017
LTIP (see notes):								
18 Feb 2010 – 5 year	209,888	–	–	–	209,888	–	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	172,946	–	–	–	172,946	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	172,946	–	172,946	–	–	2.6850	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	164,714	–	–	–	164,714	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	164,714	–	–	–	164,714	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	118,634	–	–	–	118,634	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	118,634	–	–	–	118,634	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	–	90,479	–	–	90,479	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	–	90,478	–	–	90,478	–	11/02/2017	11/02/2024
SAYE:								
2013	5,311	–	–	–	5,311	–	01/07/2016	01/01/2017
2014	–	4,354	–	–	4,354	–	01/07/2017	01/01/2018

	Outstanding options at 1 Jan 2014	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2014	Closing share price on date of exercise (£)	Earliest exercise date	Expiry date
C A Washbourn								
Deferred bonus:								
14 Feb 2011	188,394	–	188,394	–	–	2.6850	14/02/2014	14/03/2014
13 Feb 2012	13,534	–	–	–	13,534	–	13/02/2015	13/03/2015
13 Feb 2013	176,298	–	–	–	176,298	–	13/02/2016	13/03/2016
11 Feb 2014	–	146,450	–	–	146,450	–	11/02/2017	11/03/2017
LTIP (see notes):								
18 Feb 2010 – 5 year	209,888	–	–	–	209,888	–	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	172,946	–	–	–	172,946	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	172,946	–	172,946	–	–	2.6850	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	164,714	–	–	–	164,714	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	164,714	–	–	–	164,714	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	118,634	–	–	–	118,634	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 Year	118,634	–	–	–	118,634	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	–	90,479	–	–	90,479	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	–	90,478	–	–	90,478	–	11/02/2017	11/02/2024
MSIP:								
05 Apr 2013 – 5 year	500,000	–	–	–	500,000	–	05/04/2018	05/04/2023
05 Apr 2013 – 3 year	500,000	–	–	–	500,000	–	05/04/2016	05/04/2023
SAYE:								
2012	8,100	–	–	–	8,100	–	01/07/2015	01/01/2016
2014	–	4,354	–	–	4,354	–	01/07/2017	01/01/2018

Notes to share plan interests table

1 2010 LTIP award details. Awards were made on 18 February 2010 at a mid-market share price of 107.2p (110.13p D A Horton only). Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. The 50% remaining award is measured over a five year period. NAVps < RFR +10% p.a. equates to 0% vesting, NAVps = RFR +10% p.a. equates to 25% vesting, NAVps = or > RFR +15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.

2 2011 LTIP award details. Awards were made on 14 February 2011 at a mid-market share price of 132.7p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR +10% p.a. equates to 0% vesting, NAVps = RFR +10% p.a. equates to 25% vesting, NAVps = or > RFR +15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.

3 2012 LTIP award details. Awards were made on 30 March 2012 at a mid-market share price of 143.43p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR +7.5% p.a. equates to 0% vesting, NAVps = RFR +7.5% p.a. equates to 10% vesting, NAVps = RFR +10% p.a. equates to 25% vesting, NAVps = or > RFR +15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.

4 2013 LTIP award details. Awards were made on 13 February 2013 at a mid-market share price of 204.2p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR +7.5% p.a. equates to 0% vesting, NAVps = RFR +7.5% p.a. equates to 10% vesting, NAVps = RFR +10% p.a. equates to 25% vesting, NAVps = or > RFR +15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.

5 Shareholding requirements (as part of the LTIP) of 200% of salary for CEO and 150% of salary for other executive directors. To be built up over three years. LTIP awards may be forfeited if shareholding requirements are not met. Executive directors have met the shareholding requirements in respect of all unexercised share options.

6 Conditional awards were made on 27 April 2009 at the time of M L Bride's recruitment. The 150,000 shares will vest in four equal tranches on each of the third, fourth, fifth and sixth anniversaries of the date of grant.

7 MSIP awards were made on 5 April 2013 to C A Washbourn. Details of the plan are set out in the Policy Report, under legacy matters in the remuneration policy table.

8 2014 LTIP award details. Awards were made on 11 February 2014 at a mid-market share price of 273.13p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR +7.5% p.a. equates to 0% vesting, NAVps = RFR +7.5% p.a. equates to 10% vesting, NAVps = RFR +10% p.a. equates to 25% vesting, NAVps = or > RFR +15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.

9 Share prices. The market price of Beazley ordinary shares at 31 December 2014 was 288p and the range during the year was 236p to 289.3p.

Directors' remuneration report *continued*

Annual general meeting

At the forthcoming annual general meeting to be held on 25 March 2015 an advisory resolution will be proposed to approve this annual remuneration report.

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

By order of the board

Padraic O'Connor
Chairman of the remuneration committee

4 February 2015

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

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

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

D Holt
Chairman

M L Bride
Finance director

4 February 2015

Independent auditor's report to the members of Beazley plc

Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified

We have audited the financial statements of Beazley plc ('Beazley') for the year ended 31 December 2014 which comprise the consolidated statement of profit or loss, the consolidated and parent company statements of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity and the related notes. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

In our opinion:
- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the financial statements have been prepared in accordance with the Companies (Jersey) Law 1991; and
- the directors' remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the company.

Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgment, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Valuation of insurance liabilities ($4,547.4m, gross, $3,494.2m net; 2013: $4,577.3m gross, $3,399.1m net)

Refer to pages 76 to 79 (audit committee report), pages 120 to 130 (accounting policy) and pages 161 to 170 (financial disclosures).

The risk	Our procedures to address this risk
89% of the group's liabilities relate to insurance liabilities. The valuation of insurance liabilities remains the most significant inherent risk in our audit. Management apply judgement to determine reserves which include a prudential margin above the actuarial best estimate to account for estimation uncertainty. The most critical estimate included in insurance liabilities is the estimate for insurance losses incurred but not reported, for which the gross estimate is $2,540.2m (31 December 2013: $2,597.5m) and the net estimate is $1,874.5m (31 December 2013: $1,872.8m) as at 31 December 2014. The level of subjectivity in the estimated impact of uncertain or unknown future events; the diversity of risks written by Beazley, and therefore the granular level of reserving that occurs at class of business level; the nature of the specialist classes of business that Beazley underwrites; and particular uncertainty as regards the exposure to extreme losses in the catastrophe book and reserving for new products all serve to increase the level of judgement required and subjectivity inherent in the estimation of insurance liabilities.	• evaluation and testing of key controls around the actuarial reserving process and the data used to determine the quantum of both gross and net insurance liabilities. This included considerations of matters raised in reserving and underwriting committee meetings; • use of our own actuarial specialists to support us in our evaluation of insurance liabilities and in particular the estimate for insurance losses incurred but not reported, and our conclusions over whether the amount calculated by the group lies within an acceptable range; • re-projection on a gross and net basis (based on quarter 3 data then rolled forward for quarter 4) using our own models for selected significant classes of business, including marine, property and specialty. We also considered the consistency of the basis for the margin applied to the actuarial estimate year-on-year; • discussion and consideration of the reserving assumptions and methodology applied for prudence and consistency, and benchmarking to identify any outliers against our experience of similar accounts in the market place. Any outliers were then followed up through discussions with the group; and • consideration of the quality of historic reserving exercises by tracking the outcome of prior years' liabilities provisions by reference to subsequent out-turn (with the benefit of hindsight).

Existence and valuation of investments (financial assets at fair value ($4,077.4m; 2013: $4,043.6m))

Refer to page 76 (audit committee report), pages 120 to 130 (accounting policy) and pages 152 to 157 (financial disclosures).

The risk	Our procedures to address this risk
The group holds and manages a significant investment portfolio to meet its obligations under insurance contracts and for shareholder investment purposes. The size of the portfolio; the exposure to hedge funds; and the strategy employed to increase the allocation of assets with a higher credit risk to improve investment return all contribute to making the existence and valuation of investments a key areas of focus within our audit. The use and oversight of outsourced service providers remains an element of the group's approach to investment management. Further, during 2014, Beazley have brought certain investment management procedures in-house, and have increased its allocation to a portfolio of illiquid credit assets which include investments which are more complex to value.	• assessment of the group's controls for monitoring performance of investments and the data integrity of the investment records, with a particular focus on the new processes established as part of the investment management procedures brought in-house; • assessment of the identification and subsequent resolution of differences in custodian reconciliations; • receipt of external confirmations from custodians of the investment portfolio and agreement to company records; • performance and evaluation of independent pricing and credit rating checks; • assessment of valuation methodology for the new portfolio of illiquid credit assets; • inspection of the hedge fund managers' valuation reports and consideration of the historical accuracy of these pricing estimates by reference to realized amounts. We discussed any potential valuation issues with management; and • assessment of the allocation of assets into the fair value hierarchy as disclosed in note 16, placing specific emphasis on the classification of hedge funds and higher credit risk assets where a greater degree of judgment is required.

Valuation of other assets (reinsurance assets ($1,053.2m, 2013: $1,178.2m), insurance receivables ($587.0m, 2013: $617.7m), intangible assets ($94.6m, 2013: $91.6m) and premium estimates)

Refer to page 76 (audit committee report), pages 120 to 130 (accounting policy) and pages 148 to 177 (financial disclosures).

The risk	Our procedures to address this risk
The risks in these areas include the valuation of reinsurance assets and insurance receivables, being the recoverability of insurance and reinsurance debtors (notes 18, 19 and 24), the valuation of intangible assets (note 12) and the appropriateness of premium estimates. All of these balances require judgement to be applied by the group to the valuation and, in terms of processing, require manual adjustments to be made, which we consider on a substantive basis.	*Reinsurance assets and insurance receivables* • evaluation and testing of key controls over the processes designed to record and monitor insurance and reinsurance debtors; • inspection of management's aged analysis for recoveries as at 31 December 2014; • understanding the terms of the reinsurance programmes in place and conducting relevant substantive procedures and analytical reviews to assess the reasonableness of the reinsurance assets relative to gross provisions; • considering credit ratings for reinsurers; • benchmarking with other market participants where possible (e.g. to consider the bad debt provision percentages applied to counterparties) and against past experience; and • testing of the manual adjustments on a sample basis by tracing back to supporting documentation. *Intangible assets* • assessment and challenge of cash flow models employed by the group in the context of our wider understanding of the business and its strategy; and • assessment and challenge of the discount rates, assumed growth factors and terminal growth rates applied in the calculation of all impairment calculations. *Premium estimates* • evaluation of controls around premium estimates across all lines of business; • assessment of the internal peer review process in place at Beazley to challenge the premium estimates established and the timeliness of updates; • involvement of our actuarial specialists in assessing these amounts where the nature or calculation of the amounts is complex and/or judgmental; • critical assessment of the estimates involved in recording business written by binders to ensure the methodology remained appropriate in the context of the timing of business written throughout the year; and • testing of the manual adjustments on a sample basis by tracing back to supporting documentation.

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

For all of the risk areas set out above, we have assessed whether the group's disclosures about the sensitivities of the relevant financial statement items to changes in the respective key assumptions appropriately reflect the associated risks and comply with the requirements of the relevant accounting standards.

Our application of materiality and an overview of the scope of our audit

The materiality for the group financial statements as a whole was set at $20m (31 December 2013: $20m). This has been calculated with reference to a benchmark of group gross premiums written (of which it represents 1%) which we have determined, in our professional judgment, to be one of the principal considerations for members of the company in assessing the financial performance of the group. In addition, we applied materiality of $10m (31 December 2013: $10m) for balances other than the insurance and reinsurance technical balances, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the company's members' assessment of the financial performance of the group.

We report to the audit and risk committee all corrected and uncorrected misstatements we identified through our audit with an individual value in excess of $1m ($0.5m for non-technical) (31 December 2013: $1m ($0.5m for non-technical)) in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audit work to support this opinion is directed by the engagement partner, who signs this report on behalf of the firm, and in the light of the extent of the group's activities in London, is undertaken primarily by an audit team in London. Of the group's two reporting components, we subjected Beazley Furlonge Limited and the syndicates to an audit for group reporting purposes and Beazley Insurance Company Incorporated to specified risk-focused audit procedures. The latter was not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed and reported to the component auditor. The group audit team instructed the London based auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The group audit team also approved the component materiality.

Where the work was performed by component auditors, we determined the level of involvement we need to have in the audit work in order to conclude whether sufficient audit evidence has been obtained as a basis for our opinion on the group financial statements as a whole. This involvement included the group team visiting the London based auditor in order to assess the audit risk and strategy and work undertaken. Telephone conferences and on site meetings were also held with the component auditor. At these meetings, the findings reported to the group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the component auditor.

The audit work performed by the group and component auditors covered 100% of group revenue, 99.4% of profit before tax and 98.5% of group total assets.

Our opinion on other matters prescribed under the terms of our engagement is unmodified

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the directors' remuneration report that is described as having been audited, which they have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the directors' remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the company.

We have nothing to report in respect of matters on which we are required to report by exception

ISAs (UK and Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:
- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the statement of corporate governance does not appropriately address matters communicated by us to the audit and risk committee.

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company;
- returns adequate for our audit have not been received from branches not visited by us;
- the parent company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

The Listing Rules require us to review:
- the directors' statement, set out on page 64, in relation to going concern; and
- the part of the corporate governance statement on page 73 relating to the parent company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Responsibilities of our report, responsibilities and restriction on use

As explained more fully in the directors' responsibilities statement set out on page 109, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group and parent company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK & Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the parent company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the parent 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 parent company and the Parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hubert Crehan
for and on behalf of
KPMG
Chartered Accountants and Recognised Auditors
1 Harbourmaster Place
International Financial Services Centre
Dublin 1
Ireland

4 February 2015

Financial statements

Consolidated statement of profit or loss

for the year ended 31 December 2014

	Notes	2014 $m	2013 $m
Gross premiums written	3	2,021.8	1,970.2
Written premiums ceded to reinsurers		(289.1)	(293.7)
Net premiums written	3	**1,732.7**	**1,676.5**
Change in gross provision for unearned premiums		(67.9)	(64.2)
Reinsurer's share of change in the provision for unearned premiums		(5.9)	(21.8)
Change in net provision for unearned premiums		**(73.8)**	**(86.0)**
Net earned premiums	3	**1,658.9**	**1,590.5**
Net investment income	4	83.0	43.3
Other income	5	26.6	36.4
		109.6	**79.7**
Revenue		**1,768.5**	**1,670.2**
Insurance claims		899.5	877.1
Insurance claims recoverable from reinsurers		(81.6)	(158.0)
Net insurance claims	3	**817.9**	**719.1**
Expenses for the acquisition of insurance contracts	3	441.2	431.5
Administrative expenses	3	217.7	187.8
Foreign exchange loss	3	12.3	3.0
Operating expenses		**671.2**	**622.3**
Expenses	3	**1,489.1**	**1,341.4**
Share of loss in associates	14	(1.1)	(0.3)
Results of operating activities		**278.3**	**328.5**
Finance costs	8	(16.4)	(15.2)
Profit before income tax		**261.9**	**313.3**
Income tax expense	9	(44.1)	(49.3)
Profit for the year attributable to equity shareholders		**217.8**	**264.0**
Earnings per share (cents per share):			
Basic	10	43.1	52.4
Diluted	10	41.8	51.2
Earnings per share (pence per share):			
Basic	10	26.1	33.6
Diluted	10	25.3	32.8

Statement of comprehensive income

for the year ended 31 December 2014

	2014 $m	2013 $m
Group		
Profit for the year attributable to equity shareholders	217.8	264.0
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Loss on remeasurement of retirement benefit obligations	(1.6)	(3.1)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	(2.6)	3.1
Total other comprehensive income	(4.2)	–
Total comprehensive income recognised	**213.6**	**264.0**

Statement of comprehensive income

for the year ended 31 December 2014

	2014 $m	2013 $m
Company		
Profit for the year attributable to equity shareholders	207.8	112.7
Total comprehensive income recognised	**207.8**	**112.7**

Statement of changes in equity

for the year ended 31 December 2014

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Group							
Balance at 1 January 2013		**41.6**	**12.0**	**(86.2)**	**(42.6)**	**1,279.7**	**1,204.5**
Total comprehensive income recognised		–	–	3.1	–	260.9	264.0
Dividends paid		–	–	–	–	(129.9)	(129.9)
Equity settled share based payments	22	–	–	–	19.1	(2.1)	17.0
Acquisition of own shares in trust	22	–	–	–	(17.7)	–	(17.7)
Transfer of shares to employees	22	–	–	–	3.4	(2.6)	0.8
Balance at 31 December 2013		**41.6**	**12.0**	**(83.1)**	**(37.8)**	**1,406.0**	**1,338.7**
Total comprehensive income recognised		–	–	(2.6)	–	216.2	213.6
Dividends paid		–	–	–	–	(212.6)	(212.6)
Equity settled share based payments	22	–	–	–	15.3	0.6	15.9
Acquisition of own shares in trust	22	–	–	–	(12.5)	–	(12.5)
Transfer of shares to employees	22	–	–	–	2.9	(3.3)	(0.4)
Balance at 31 December 2014		**41.6**	**12.0**	**(85.7)**	**(32.1)**	**1,406.9**	**1,342.7**

Statement of changes in equity

for the year ended 31 December 2014

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2013		**41.6**	**12.0**	**(35.9)**	**(51.8)**	**724.9**	**690.8**
Total comprehensive income recognised		–	–	–	–	112.7	112.7
Dividends paid		–	–	–	–	(129.9)	(129.9)
Equity settled share based payments	22	–	–	–	19.1	(2.1)	17.0
Acquisition of own shares in trust	22	–	–	–	(17.7)	–	(17.7)
Transfer of shares to employees	22	–	–	–	3.4	(2.6)	0.8
Balance at 31 December 2013		**41.6**	**12.0**	**(35.9)**	**(47.0)**	**703.0**	**673.7**
Total comprehensive income recognised		–	–	–	–	207.8	207.8
Dividends paid		–	–	–	–	(212.6)	(212.6)
Equity settled share based payments	22	–	–	–	15.3	0.6	15.9
Acquisition of own shares in trust	22	–	–	–	(12.5)	–	(12.5)
Transfer of shares to employees	22	–	–	–	2.9	(3.3)	(0.4)
Balance at 31 December 2014		**41.6**	**12.0**	**(35.9)**	**(41.3)**	**695.5**	**671.9**

Statements of financial position

as at 31 December 2014

		2014		2013	
	Notes	Group $m	Company $m	Group $m	Company $m
Assets					
Intangible assets	12	94.6	–	91.6	–
Plant and equipment	13	3.9	0.9	6.0	1.1
Deferred tax asset	28	9.0	–	8.7	–
Investment in subsidiaries	31	–	747.2	–	747.2
Investment in associates	14	10.5	–	8.4	–
Deferred acquisition costs	15	222.7	–	206.0	–
Reinsurance assets	19, 24	1,053.2	–	1,178.2	–
Financial assets at fair value	16	4,077.4	–	4,043.6	–
Insurance receivables	18	587.0	–	617.7	–
Other receivables		20.2	40.4	41.7	49.2
Cash and cash equivalents	20	364.2	1.2	382.7	1.2
Total assets		**6,442.7**	**789.7**	**6,584.6**	**798.7**
Equity					
Share capital	21	41.6	41.6	41.6	41.6
Share premium		12.0	12.0	12.0	12.0
Foreign currency translation reserve		(85.7)	(35.9)	(83.1)	(35.9)
Other reserves	22	(32.1)	(41.3)	(37.8)	(47.0)
Retained earnings		1,406.9	695.5	1,406.0	703.0
Total equity		**1,342.7**	**671.9**	**1,338.7**	**673.7**
Liabilities					
Insurance liabilities	24	4,547.4	–	4,577.3	–
Financial liabilities	16, 25	256.8	115.8	274.9	123.0
Retirement benefit liability	27	2.6	–	2.4	–
Deferred tax liabilities	28	8.5	–	65.0	–
Current income tax liability		29.2	–	18.5	0.2
Other payables	26	255.5	2.0	307.8	1.8
Total liabilities		**5,100.0**	**117.8**	**5,245.9**	**125.0**
Total equity and liabilities		**6,442.7**	**789.7**	**6,584.6**	**798.7**

The financial statements were approved by the board of directors on 4 February 2015 and were signed on its behalf by:

D Holt
Chairman

M L Bride
Finance director

4 February 2015

Statements of cash flows

for the year ended 31 December 2014

	Notes	2014 Group $m	2014 Company $m	2013 Group $m	2013 Company $m
Cash flow from operating activities					
Profit before income tax		**261.9**	**207.8**	**313.3**	**112.7**
Adjustments for:					
Amortisation of intangibles	12	4.6	–	14.2	–
Equity settled share based compensation	22	15.3	15.3	19.1	19.1
Net fair value gains on financial assets		25.6	–	15.0	–
Share of loss in associates	14	1.1	–	0.3	–
Depreciation of plant and equipment	13	2.4	0.2	2.4	0.2
Impairment of reinsurance assets (written back)/recognised	6	(0.4)	–	(3.5)	–
Impairment loss recognised on intangible assets	12	–	–	11.5	–
Impairment loss recognised on investment in associates		–	–	1.4	1.4
(Decrease)/increase in insurance and other liabilities		(103.3)	(7.0)	37.1	1.3
Decrease/(increase) in insurance, reinsurance and other receivables		177.6	8.8	(36.4)	12.7
Increase in deferred acquisition costs		(16.7)	–	(21.0)	–
Financial income	4	(67.7)	–	(68.7)	–
Financial expense	8	16.4	6.7	17.3	6.7
Profit on debt buyback	8	–	–	(2.1)	–
Income tax paid		(89.7)	–	(46.4)	–
Net cash from operating activities		**227.1**	**231.8**	**253.5**	**154.1**
Cash flow from investing activities					
Purchase of plant and equipment	13	(0.4)	–	(1.5)	–
Expenditure on software development	12	(5.3)	–	(5.1)	–
Purchase of investments		(2,832.7)	–	(3,079.5)	–
Proceeds from sale of investments		2,773.3	–	3,026.3	–
Investment in associate	14	(3.2)	–	(0.1)	–
Interest and dividends received	4	67.7	–	68.7	–
Net cash (used in)/from investing activities		**(0.6)**	**–**	**8.8**	**–**
Cash flow from financing activities					
Acquisition of own shares in trust	22	(12.5)	(12.5)	(17.7)	(17.7)
Repayment of borrowings	25	–	–	(39.5)	–
Interest paid		(14.8)	(6.7)	(13.5)	(6.7)
Dividends paid		(212.6)	(212.6)	(129.9)	(129.9)
Net cash used in financing activities		**(239.9)**	**(231.8)**	**(200.6)**	**(154.3)**
Net (decrease)/increase in cash and cash equivalents		(13.4)	–	61.7	(0.2)
Cash and cash equivalents at beginning of year		382.7	1.2	316.5	1.3
Effect of exchange rate changes on cash and cash equivalents		(5.1)	–	4.5	0.1
Cash and cash equivalents at end of year	20	**364.2**	**1.2**	**382.7**	**1.2**

Notes to the financial statements

1 Statement of accounting policies

Beazley plc is a company incorporated in Jersey and domiciled in Ireland. The group financial statements for the year ended 31 December 2014 comprise the parent company and its subsidiaries and the group's interest in associates.

Both the financial statements of the parent company, Beazley plc, and the group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs'). On publishing the parent company financial statements together with the group financial statements, the company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

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

As a result of IFRS 10 (consolidated financial statements), with a date of initial application of 1 January 2014, the group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10, the group reassessed the control conclusion, including a review of relationships influencing the group's associates, subsidiaries and other related parties for its investees at 1 January 2014. The group has not changed any of its control conclusions in respect of any investments in subsidiaries or associates. As the Lloyds syndicates do not carry out business in their own right, they are not considered entities and therefore fall outside the scope of IFRS 10. The syndicate structure, used by underwriters at Lloyd's, is a means for the spreading of risk where each investor provides separate and distinct collateral of its own, and has several and direct liability for losses rather than joint and several liability. The group's consolidation conclusion in respect of its syndicates remains unchanged from previous periods. Therefore, there is no impact on the profit or loss for the current or prior year or on equity reported. There is also no impact on the total assets or liabilities in the comparative period.

In addition to IFRS 10, all other new standards and interpretations released by the International Accounting Standards Board (IASB) have been considered. Of these the following new and amended standards have been adopted by the group during the period:
- IFRS 11: Joint arrangements;
- IFRS 12: Disclosure of interests in other entities;
- IAS 27: Amendment: Separate financial statements;
- IAS 28: Amendment: Investments in associates and joint ventures;
- IAS 32: Amendment: Offsetting financial assets and financial liabilities;
- IAS 36: Amendment: Recoverable amount disclosures for non financial assets;
- IAS 39: Amendment: Novation of derivatives and continuation of hedge accounting; and
- IFRIC 21: Levies.

IFRS 11 replaces IAS 31 Interests in joint ventures and SIC-13 Jointly-controlled entities – nonmonetary contributions by venturers. IFRS 11 classifies joint arrangements as either joint operations or joint ventures and focuses on the nature of the rights and obligations of the arrangement. The predecessor standard, IAS 31, focused to a greater extent on the legal form to determine the presence of 'jointly controlled entities' (JCEs) which would then have been equity accounted for or proportionately consolidated. IFRS 11 may result in some of these JCEs instead being seen as joint operations which will be subject to a requirement for the party to directly account for its own assets and liabilities, when additional factors (other than legal form) are taken into account. All investee entities determined under the new criteria to be 'joint ventures' will be equity accounted for, with the option for the investor to proportionately consolidate being removed from the new standard. The adoption of IFRS 11 has no impact on the consolidated financial statements in the current or prior periods.

IFRS 12 sets out more comprehensive disclosures relating to the nature, risks and financial effects of interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity or operation. The group has included additional disclosures on unconsolidated structured entities in note 16.

IAS 27 carries forward the existing accounting requirements for separate financial statements; the requirements of IAS 28 and IAS 31 for separate financial statements have been incorporated into IAS 27. This amendment did not result in a material impact on the financial statements of the company.

1 Statement of accounting policies *continued*

IAS 28 previously discussed how to apply equity accounting to associates in consolidated financial statements. The revised IAS 28 continues to include that guidance but it is now extended to also apply that accounting to entities that qualify as joint ventures under IFRS 11.

IAS 32 was amended to clarify the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. This amendment did not result in a material impact on the financial statements of the company.

IAS 36 was amended to reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. This amendment did not result in a material impact on the financial statements of the company.

IAS 39 was amended to allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief was introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in a consistent manner. This amendment did not result in a material impact on the financial statements of the company.

IFRIC 21 provides guidance on the accounting for levies imposed by governments under legislation in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation confirms that an entity recognises a liability for a levy when and only when the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if commercially it has no realistic opportunity to avoid the triggering event. This standard did not result in a material impact on the financial statements of the company.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2014, and have not been applied in preparing these financial statements. The group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement. The group is still reviewing the impact of the upcoming standards to determine their impact:
- IFRS 9: Financial instruments (1 January 2018);
- IFRS 10: Amendment: Sale or contribution of assets between an investor and its associate or joint venture (1 January 2016);
- IFRS 11: Amendment: Accounting for acquisitions on interests in joint operations (1 January 2016);
- IFRS 14: Regulatory deferral accounts (1 January 2016);
- IFRS 15: Revenue from contracts with customers (1 January 2017);
- IAS 1: Amendment: Disclosure Initiative (1 January 2016);
- IAS 16: Amendment: Clarification of acceptable methods of depreciation and amortisation (1 January 2016);
- IAS 19: Amendment: Defined benefit plans (1 July 2014)*;
- IAS 27: Amendment: Equity method in separate financial statements (1 January 2016);
- IAS 28: Amendment: Sale or contribution of assets between an investor and its associate or joint venture (1 January 2016);
- IAS 38: Amendment: Clarification of acceptable methods of depreciation and amortisation (1 January 2016);
- annual improvement to IFRSs – 2010-2012 cycle (1 July 2014)*;
- annual improvement to IFRSs – 2011-2013 cycle (1 July 2014)*; and
- annual improvement to IFRSs – 2012-2014 cycle (1 January 2016).

* standards that have been endorsed by the EU.

Basis of presentation

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

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

Use of estimates and judgements

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

Notes to the financial statements *continued*

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in the following notes:
- note 1a: accounting treatment for group's interest in managed syndicates;
- note 12: intangible assets (assumptions underlying recoverable amounts);
- note 16: financial assets and liabilities (valuations based on models and unobservable inputs);
- note 23: equity compensation plans (assumptions used to calculate fair value of share options granted);
- note 24: insurance liabilities and reinsurance assets (estimates for losses incurred but not reported); and
- note 27: retirement benefit obligations (actuarial assumptions).

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported. The total estimate net of reinsurers' share as at 31 December 2014 is $1,874.5m (2013: $1,872.8m) and is included within total insurance liabilities in the statement of financial position.

Consolidation
a) Subsidiary undertakings
Subsidiary undertakings are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

For all business combinations from 1 January 2010:
(i) Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination, are expensed as incurred.
(ii) In addition, any consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.
(iii) Any contingent consideration is measured at fair value at the acquisition date.

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

Certain group subsidiaries underwrite as corporate members of Lloyd's on syndicates managed by Beazley Furlonge Limited. In view of the several and direct liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the group financial statements. The group continues to conclude that it remains appropriate to consolidate its share of the result of these syndicates and accordingly, as the group is the sole provider of capacity on syndicates 2623, 3622 and 2623, these financial statements include 100% of the economic interest in these syndicates. For the other syndicates to which Beazley is appointed managing agent, being syndicates 623 and 6107 and for which the capacity is provided entirely by third parties to the group, these financial statements reflect Beazley's economic interest in the form of agency fees and profit commission to which they are entitled. This judgement will be kept under review at each reporting date.

1 Statement of accounting policies *continued*

b) Associates

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

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

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

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

c) Intercompany balances and transactions

All intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated in the group financial statements. Transactions and balances between the group and associates are not eliminated.

Foreign currency translation

a) Functional and presentational currency

Items included in the financial statements of the parent and the subsidiaries are measured using the currency of the primary economic environment in which the relevant entity operates (the 'functional currency'). The group financial statements are presented in US dollars, being the functional and presentational currency of the parent and its main trading subsidiaries.

b) Transactions and balances

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

c) Group companies

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

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

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

Insurance contracts

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

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.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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 under which the premium is apportioned over the period of risk.

Deferred acquisition costs (DAC)

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

Claims

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

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

Liability adequacy testing

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

Ceded reinsurance

These are contracts entered into by the group with reinsurers under which the group is compensated for losses on contracts issued by the group 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 statement of profit or loss.

Revenue

Revenue consists of net earned premiums, net investment income and other income (made up of commissions received from Beazley service companies, profit commissions and managing agent's fees). Profit commissions are recognised as profit is earned. Managing agent's fees are recognised as the services are provided.

Dividends paid

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

1 Statement of accounting policies *continued*

Plant and equipment

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

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

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

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

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

b) Syndicate capacity

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

c) Licences

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

d) IT development costs

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

e) Renewal rights

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Financial instruments

Financial instruments are recognised in the statement of financial position at such time as the group becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the group commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the group's obligations specified in the contract expire, are discharged or cancelled.

a) Financial assets

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

b) Financial assets at fair value through profit or loss

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

c) Loans and receivables

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

d) Fair value measurement

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

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

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

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

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

1 Statement of accounting policies *continued*

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

e) Hedge funds, equity linked funds and illiquid credit assets

The group invests in a number of hedge funds, equity linked funds and illiquid credit assets for which there are no available quoted market prices. The valuation of these assets is based on fair value techniques (as described above). The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds. Consideration is also given to adjusting such NAV valuations for any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest available valuations. At certain times, we will have uncalled unfunded commitments in relation to our illiquid credit assets. These uncalled unfunded commitments are actively monitored by the group and are disclosed in the notes to the financial statements. The additional investment into our illiquid credit asset portfolio is recognised on the date that this funding is provided by the group.

f) Insurance receivables and payables

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

g) Other receivables

Other receivables are carried at amortised cost less any impairment losses.

h) Investment income

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

i) Borrowings

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

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

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

j) Other payables

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

k) Hedge accounting and derivative financial instruments

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Derivative assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the parties intend to settle on a net basis, or realise the assets and settle the liability simultaneously.

The group has not designated any derivatives as fair value hedges, cash flow hedges or net investment hedges.

l) Impairment of financial assets

The group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. The group assesses at each reporting date whether there is objective evidence that a specific financial asset measured at amortised cost is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset that can be reliably estimated. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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

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

m) Cash and cash equivalents

Cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months' maturity 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 statement of profit or loss on a straight-line basis over the period of the lease.

Employee benefits

a) Pension obligations

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

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 statement of profit or loss 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 net pension obligation is measured at the present value of the estimated future net cash flows and is stated net of plan assets.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

The group also determines the net interest expense/(income) for the period on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the defined liability/(asset) comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

1 Statement of accounting policies *continued*

Net interest expense/(income) is recognised in the statement of profit or loss.

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

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

b) Share-based compensation

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

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

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and retained earnings. When the options are exercised and the shares are granted from the employee share trust, the proceeds received, net of any transaction costs, are credited to the employee share trust reserve and retained earnings.

Income taxes

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

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

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

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

Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares such as share options granted to employees. Share options with performance conditions attaching to them have been excluded from the weighted average number of shares to the extent that these conditions have not been met at the reporting date.

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Provisions and contingencies

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

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

2 Risk management

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

The eight categories of risk have been considered in context of the company (Beazley plc); the following areas are applicable to the company: market, operational, regulatory and legal and liquidity. The following disclosures cover the company to the extent that these areas are applicable.

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

2.1 Insurance risk

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

a) Underwriting risk

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

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

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

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

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

2 Risk management *continued*

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

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

The group's high-level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The board may adjust these limits over time as conditions change. In 2014 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of $532m net of reinsurance. The catastrophe risk appetite reduced by 7% in 2014 from $574m in 2013, due to a change in the catastrophe model.

Lloyd's has also defined its own specific set of RDS events for which all syndicates with relevant exposures must report. Of these the three largest, net of reinsurance, events which could have impacted Beazley in 2013 and 2014 are:

Unaudited

	2014	
Lloyd's prescribed natural catastrophe event	Modelled PML (before reinsurance) $m	Modelled PML (after reinsurance) $m
Los Angeles quake (2014: $78bn)	575.1	229.5
Gulf of Mexico windstorm (2014: $112bn)	562.9	241.9
US Northeast windstorm (2014: $78bn)	497.2	243.9

Unaudited

	2013	
Lloyd's prescribed natural catastrophe event	Modelled PML (before) reinsurance) $m	Modelled PML (after) reinsurance) $m
Los Angeles quake (2013: $78bn)	633.5	263.2
Gulf of Mexico windstorm (2013: $112bn)	515.5	274.9
US Northeast windstorm (2013: $78bn)	478.1	291.1

The net of reinsurance exposures to the above Lloyd's RDS events have reduced during 2014 mainly due to additional reinsurance being purchased in the reinsurance division. In the property division there has been growth in exposure in some regions which has led to an increase in the gross losses for the Gulf of Mexico and Northeast windstorm scenarios. The largest movements in our top RDS events are the LA and San Francisco quake events which have reduced from $263.2m net in 2013 to $229.5m in 2014 mainly as a result of the additional reinsurance being purchased in the reinsurance division.

The net exposure of the group to each of these modelled events at a given point in time is a function of assumptions made about how and where the event occurs, its magnitude, the amount of business written that is exposed to each event and the reinsurance arrangements in place.

To manage underwriting exposures, the group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2014, the normal maximum line that any one underwriter could commit the managed syndicates to was $100m. In most cases, maximum lines for classes of business were much lower than this.

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

Notes to the financial statements *continued*

2 Risk management *continued*

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

Binding authority contracts

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

Operating divisions

In 2014, the group's business consisted of six operating divisions. The following table provides a breakdown of gross premiums written by division, and also provides a geographical split based on placement of risk.

2014	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	7%	–	7%
Marine	16%	–	16%
Political risks & contingency	6%	–	6%
Property	17%	–	17%
Reinsurance	10%	–	10%
Specialty lines	35%	9%	44%
Total	**91%**	**9%**	**100%**

2013	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	5%	–	5%
Marine	16%	–	16%
Political risks & contingency	7%	–	7%
Property	19%	–	19%
Reinsurance	11%	–	11%
Specialty lines	34%	8%	42%
Total	**92%**	**8%**	**100%**

b) Reinsurance risk

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

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

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

c) Claims management risk

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

2 Risk management *continued*

d) Reserving and ultimate reserves risk

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

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

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

2.2 Strategic risk ▪

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

Senior management performance

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

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

2.3 Market risk

Market risk arises where the value of assets and liabilities or future cash flows changes as a result of movements in foreign exchange rates, interest rates and market prices. Efficient management of market risk is key to the investment of group assets. Appropriate levels of investment risk are determined by limiting the proportion of forecast group earnings which could be at risk from lower than expected investment returns, using a 1 in 10 confidence level as a practical measure of such risk. In 2014, this permitted variance from the forecast investment return was set at $135m. For 2015, the permitted variance will be slightly lower. Investment strategy is developed to be consistent with this limit and investment risk is monitored on an ongoing basis, using outputs from our internal model.

Changes in interest rates also impact the present values of estimated group liabilities, which are used for solvency and capital calculations. Our investment strategy reflects the nature of our liabilities and the combined market risk of investment assets and estimated liabilities is monitored and managed within specified limits.

a) Foreign exchange risk

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

The group operates in four main currencies: US dollars, sterling, Canadian dollars and euros. Transactions in all currencies are converted to US dollars on initial recognition with any resulting monetary items being translated to the US dollar spot rate at the reporting date. Remaining foreign exchange risk is still actively managed as described on page 134.

Notes to the financial statements *continued*

2 Risk management *continued*

In 2014, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

The group's underwriting capital is matched by currency to the principal underlying currencies of its written premiums. This helps to mitigate the risk that the group's capital required to underwrite business is materially affected by any future movements in exchange rates.

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

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

31 December 2014	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	860.5	118.8	324.4	1,303.7	5,139.0	6,442.7
Total liabilities	(834.6)	(110.8)	(312.1)	(1,257.5)	(3,842.5)	(5,100.0)
Net assets	**25.9**	**8.0**	**12.3**	**46.2**	**1,296.5**	**1,342.7**

31 December 2013	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	886.8	117.3	371.4	1,375.5	5,209.1	6,584.6
Total liabilities	(888.8)	(116.3)	(345.1)	(1,350.2)	(3,895.7)	(5,245.9)
Net assets	**(2.0)**	**1.0**	**26.3**	**25.3**	**1,313.4**	**1,338.7**

Sensitivity analysis

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

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2014 $m	2013 $m	2014 $m	2013 $m
Dollar weakens 30% against other currencies	11.9	6.4	22.8	12.5
Dollar weakens 20% against other currencies	7.9	4.3	15.2	8.3
Dollar weakens 10% against other currencies	4.0	2.1	7.6	4.2
Dollar strengthens 10% against other currencies	(4.0)	(2.1)	(7.6)	(4.2)
Dollar strengthens 20% against other currencies	(7.9)	(4.3)	(15.2)	(8.3)
Dollar strengthens 30% against other currencies	(11.9)	(6.4)	(22.8)	(12.5)

b) Interest rate risk

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

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

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

2 Risk management *continued*

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. 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 2014	<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
Fixed and floating rate debt securities	1,531.7	765.6	558.0	269.5	254.7	137.8	–	3,517.3
Cash and cash equivalents	364.2	–	–	–	–	–	–	364.2
Derivative financial instruments	0.8	–	–	–	–	–	–	0.8
Borrowings	–	(122.5)	–	–	(115.8)	–	(18.0)	(256.3)
Total	**1,896.7**	**643.1**	**558.0**	**269.5**	**138.9**	**137.8**	**(18.0)**	**3,626.0**

31 December 2013	<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
Fixed and floating rate debt securities	1,414.1	798.7	603.8	457.5	187.5	59.9	1.4	3,522.9
Cash and cash equivalents	382.7	–	–	–	–	–	–	382.7
Derivative financial instruments	2.6	–	–	–	–	–	–	2.6
Borrowings	–	–	(132.1)	–	–	(123.0)	(18.0)	(273.1)
Total	**1,799.4**	**798.7**	**471.7**	**457.5**	**187.5**	**(63.1)**	**(16.6)**	**3,635.1**

Borrowings include tier 2 subordinated debt that is due in October 2026 with a first call at the group's option in October 2016. If the debt is settled when due in October 2026 the duration of the debt falls within the >10 yrs category. If the debt is called in October 2016, the duration of the debt falls within the 1-2 yrs (2013: 2-3 yrs) category. Also included in borrowings is $18m of a subordinated debt facility raised in 2004 which is unsecured. The subordinated notes are due in 2034 and have been callable at the group's option since 2009.

Sensitivity analysis

Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt securities and borrowings as well as subsequent interest receipts and payments. This would affect reported profits and net assets as indicated in the table below:

	Impact on profit after income tax for the year		Impact on net assets	
	2014 $m	2013 $m	2014 $m	2013 $m
Shift in yield (basis points)				
150 basis point increase	(81.2)	(68.3)	(81.2)	(68.3)
100 basis point increase	(54.1)	(45.4)	(54.1)	(45.4)
50 basis point increase	(27.1)	(22.9)	(27.1)	(22.9)
50 basis point decrease	27.1	22.9	27.1	22.9
100 basis point decrease	54.1	45.4	54.1	45.4

c) Price risk

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

Financial assets include fixed and floating rate debt securities, hedge funds, illiquid credit assets, equity linked funds and derivative financial assets depending on the group's appetite for risk. The fixed income securities are well diversified across high quality, liquid securities. The price risk associated with these securities is predominantly interest, foreign exchange and credit risk related. The sensitivity to price risk that relates to the group's hedge fund investments, illiquid credit assets and equity linked funds is presented on page 136. The group's hedge funds and equity linked funds are limited to a small and manageable part of the total investment portfolio. The investment committee has established comprehensive guidelines in relation to this, with investment managers setting out maximum investment limits, requirements for diversification across industries and limits to concentrations in any one industry or company.

Notes to the financial statements *continued*

2 Risk management *continued*

Listed investments that are quoted in an active market are recognised in the statement of financial position at quoted bid price, which is deemed to be approximate exit price. If the market for the investment is not considered to be active, then the group establishes fair value using valuation techniques (refer to note 16). This includes comparison of orderly transactions between market participants, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

	Impact on profit after income tax for the year		Impact on net assets	
	2014 $m	2013 $m	2014 $m	2013 $m
Change in fair value of hedge funds, equity linked funds and illiquid credit assets				
30% increase in fair value	143.4	130.5	143.4	130.5
20% increase in fair value	95.6	87.0	95.6	87.0
10% increase in fair value	47.8	43.5	47.8	43.5
10% decrease in fair value	(47.8)	(43.5)	(47.8)	(43.5)
20% decrease in fair value	(95.6)	(87.0)	(95.6)	(87.0)
30% decrease in fair value	(143.4)	(130.5)	(143.4)	(130.5)

2.4 Operational risk

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

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

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

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

Key components of the group's operational control environment include:
- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

Capital management

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

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

Further information on the group's capital management activities can be found on page 48.

2 Risk management *continued*

2.5 Credit risk

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

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

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

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

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

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

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

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

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

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

31 December 2014	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,273.3	235.5	8.5	–	–	3,517.3
– equity linked funds	–	–	–	–	145.9	145.9
– hedge funds (uncorrelated strategies)	–	–	–	–	367.0	367.0
– illiquid credit assets	–	–	–	–	45.9	45.9
– derivative financial instruments	–	–	–	–	1.3	1.3
Insurance receivables	–	–	–	–	587.0	587.0
Reinsurance assets	1,053.2	–	–	–	–	1,053.2
Other receivables	20.2	–	–	–	–	20.2
Cash and cash equivalents	364.2	–	–	–	–	364.2
Total	**4,710.9**	**235.5**	**8.5**	–	**1,147.1**	**6,102.0**

Notes to the financial statements *continued*

2 Risk management *continued*

31 December 2013	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,303.2	219.7	–	–	–	3,522.9
– equity linked funds	–	–	–	–	139.7	139.7
– hedge funds (uncorrelated strategies)	–	–	–	–	369.8	369.8
– illiquid credit assets	–	–	–	–	6.8	6.8
– derivative financial instruments	–	–	–	–	4.4	4.4
Insurance receivables	–	–	–	–	617.7	617.7
Reinsurance assets	1,178.2	–	–	–	–	1,178.2
Other receivables	41.7	–	–	–	–	41.7
Cash and cash equivalents	382.7	–	–	–	–	382.7
Total	**4,905.8**	**219.7**	**–**	**–**	**1,138.4**	**6,263.9**

The largest counterparty exposure within tier 1 is $426.6m of US Treasuries (2013: $471.1m).

Financial investments falling within the unrated category comprise hedge funds and equity linked funds for which there is no readily available market data to allow classification within the respective tiers. Additionally, insurance receivables are classified as unrated, due to premium debtors not being credit rated.

Insurance receivables and other receivables balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. Insurance receivables in respect of coverholder business are credit controlled by third-party managers. We monitor third party coverholders' performance and their financial processes through the group's coverholder management team. These assets are individually impaired after considering information such as the occurrence of significant changes in the counterparties' financial position, patterns of historical payment information and disputes with counterparties.

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment in respect of the reinsurance assets at 31 December 2014 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2013	8.1	9.9	18.0
Impairment loss (written back)/recognised	(3.6)	0.1	(3.5)
Balance at 31 December 2013	4.5	10.0	14.5
Impairment loss (written back)/recognised	(1.0)	0.6	(0.4)
Balance at 31 December 2014	**3.5**	**10.6**	**14.1**

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

31 December 2014	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	25.1	7.2	3.1	9.6	45.0
Reinsurance assets	2.0	8.2	0.3	4.1	14.6

31 December 2013	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	22.7	7.2	2.4	7.0	39.3
Reinsurance assets	4.4	2.1	2.0	4.2	12.7

The total impairment in respect of reinsurance assets past due by more than 30 days at 31 December 2014 was $3.5m (2013: $5.1m).

2 Risk management *continued*

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

2.6 Regulatory and legal risk ▪

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

2.7 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios (RDS) are provided on page 131). This means that the group maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The group also makes use of loan facilities and borrowings, details of which can be found in note 25. Further information on the group's capital resources is contained on pages 48 to 49. This is the surplus over expected working capital and regulatory capital requirements and represents a buffer that could be used to meet unforeseen costs or take advantage of new opportunities.

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

31 December 2014	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Life, accident & health	50.8	13.7	0.5	–	65.0	0.8
Marine	103.0	86.1	33.1	17.6	239.8	1.9
Political risks & contingency	49.8	28.2	10.5	3.5	92.0	1.5
Property	126.1	72.7	20.0	12.5	231.3	1.6
Reinsurance	95.3	62.0	16.8	11.2	185.3	1.7
Specialty lines	483.3	694.5	362.8	310.2	1,850.8	2.9
Net insurance liabilities	**908.3**	**957.2**	**443.7**	**355.0**	**2,664.2**	

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

31 December 2013	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Life, accident & health	48.9	20.9	1.0	–	70.8	0.9
Marine	108.8	87.2	29.2	16.6	241.8	1.8
Political risks & contingency	45.4	34.5	8.5	3.5	91.9	1.5
Property	135.2	87.5	18.0	10.0	250.7	1.5
Reinsurance	102.7	75.1	16.8	9.4	204.0	1.6
Specialty lines	445.3	636.9	369.2	331.5	1,782.9	3.0
Net insurance liabilities	**886.3**	**942.1**	**442.7**	**371.0**	**2,642.1**	

Notes to the financial statements *continued*

2 Risk management *continued*

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

31 December 2014	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net insurance liabilities	908.3	957.2	443.7	355.0	2,664.2
Borrowings	–	122.5	115.8	18.0	256.3
Other payables	255.5	–	–	–	255.5

31 December 2013	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net insurance liabilities	886.3	942.1	442.7	371.0	2,642.1
Borrowings	–	132.1	–	141.0	273.1
Other payables	307.8	–	–	–	307.8

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

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

Maturity 31 December 2014	<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
Fixed and floating rate debt securities	805.6	833.1	690.2	395.6	370.3	422.5	–	3,517.3
Derivative financial instruments	0.8	–	–	–	–	–	–	0.8
Cash and cash equivalents	364.2	–	–	–	–	–	–	364.2
Insurance receivables	587.0	–	–	–	–	–	–	587.0
Other receivables	20.2	–	–	–	–	–	–	20.2
Other payables	(255.5)	–	–	–	–	–	–	(255.5)
Borrowings	–	(122.5)	–	–	(115.8)	–	(18.0)	(256.3)
Total	**1,522.3**	**710.6**	**690.2**	**395.6**	**254.5**	**422.5**	**(18.0)**	**3,977.7**

31 December 2013	<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
Fixed and floating rate debt securities	925.6	649.9	722.9	536.9	324.3	361.9	1.4	3,522.9
Derivative financial instruments	2.6	–	–	–	–	–	–	2.6
Cash and cash equivalents	382.7	–	–	–	–	–	–	382.7
Insurance receivables	617.7	–	–	–	–	–	–	617.7
Other receivables	41.7	–	–	–	–	–	–	41.7
Other payables	(307.8)	–	–	–	–	–	–	(307.8)
Borrowings	–	–	(132.1)	–	–	(123.0)	(18.0)	(273.1)
Total	**1,662.5**	**649.9**	**590.8**	**536.9**	**324.3**	**238.9**	**(16.6)**	**3,986.7**

Borrowings include tier 2 subordinated debt that is due in October 2026 with a first call at the group's option in October 2016. If the debt is settled when due in October 2026 the maturity date of the debt falls within the >10 yrs category. If the debt is called in October 2016, the maturity date of the debt falls within the 1-2 yrs (2013: 2-3 yrs) category.

2 Risk management *continued*

2.8 Group risk ▪

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

a) Contagion

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

b) Reputation

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

3 Segmental analysis

a) Reporting segments

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

The operating segments are based upon the different types of insurance risk underwritten by the group, as described below:

Life, accident & health

This segment underwrites life, health, personal accident, sports and income protection risks.

Marine

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

Political risks & contingency

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

Property

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

Reinsurance

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

Specialty lines

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The reporting segments do not cross-sell business to each other. There are no individual policyholders who comprise greater than 10% of the group's total gross premiums written.

Notes to the financial statements *continued*

3 Segmental analysis *continued*

b) Segment information

2014	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	132.2	325.2	123.2	344.7	200.8	895.7	2,021.8
Net premiums written	113.7	289.9	101.2	297.6	153.8	776.5	1,732.7
Net earned premiums	103.0	282.6	96.9	287.9	160.1	728.4	1,658.9
Net investment income	1.0	8.9	3.8	10.2	7.8	51.3	83.0
Other income	1.0	3.4	1.8	6.6	3.8	10.0	26.6
Revenue	**105.0**	**294.9**	**102.5**	**304.7**	**171.7**	**789.7**	**1,768.5**
Net insurance claims	62.2	106.6	25.7	121.3	60.0	442.1	817.9
Expenses for the acquisition of insurance contracts	33.9	78.3	29.2	87.1	35.6	177.1	441.2
Administrative expenses	13.9	36.8	20.4	39.9	14.9	91.8	217.7
Foreign exchange loss	0.8	2.1	0.7	2.1	1.2	5.4	12.3
Expenses	**110.8**	**223.8**	**76.0**	**250.4**	**111.7**	**716.4**	**1,489.1**
Share of loss of associates	–	–	(0.3)	–	–	(0.8)	(1.1)
Segment result	**(5.8)**	**71.1**	**26.2**	**54.3**	**60.0**	**72.5**	**278.3**
Finance costs							(16.4)
Profit before income tax							**261.9**
Income tax expense							(44.1)
Profit for the year attributable to equity shareholders							**217.8**
Claims ratio	60%	38%	27%	42%	37%	61%	49%
Expense ratio	47%	40%	51%	44%	32%	37%	40%
Combined ratio	107%	78%	78%	86%	69%	98%	89%
Segment assets and liabilities							
Segment assets	216.8	1,048.9	767.9	999.1	372.1	3,037.9	6,442.7
Segment liabilities	(188.8)	(673.7)	(629.6)	(808.2)	(233.2)	(2,566.5)	(5,100.0)
Net assets	**28.0**	**375.2**	**138.3**	**190.9**	**138.9**	**471.4**	**1,342.7**
Additional information							
Investment in associates	–	–	2.8	–	–	7.7	10.5
Impairment of non-financial assets	–	–	–	–	–	–	–
Capital expenditure	0.3	1.1	0.5	0.9	2.0	0.9	5.7
Amortisation and depreciation	(0.4)	(1.3)	(0.6)	(1.1)	(1.1)	(2.5)	(7.0)
Net cash flow	(0.5)	(5.4)	(2.4)	(2.3)	(1.6)	(6.4)	(18.5)

3 Segmental analysis *continued*

2013	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	100.3	315.9	131.2	371.4	221.6	829.8	1,970.2
Net premiums written	96.1	282.1	110.1	308.7	171.5	708.0	1,676.5
Net earned premiums	95.4	264.4	98.6	302.6	165.3	664.2	1,590.5
Net investment income	0.5	4.6	2.2	5.9	4.7	25.4	43.3
Other income	5.8	4.1	2.6	10.5	2.2	11.2	36.4
Revenue	**101.7**	**273.1**	**103.4**	**319.0**	**172.2**	**700.8**	**1,670.2**
Net insurance claims	70.8	88.7	4.7	122.2	29.5	403.2	719.1
Expenses for the acquisition of insurance contracts	27.7	71.3	26.8	99.5	34.1	172.1	431.5
Administrative expenses	21.0	29.6	17.4	31.5	17.5	70.8	187.8
Foreign exchange loss	0.1	0.5	0.2	0.6	0.4	1.2	3.0
Expenses	**119.6**	**190.1**	**49.1**	**253.8**	**81.5**	**647.3**	**1,341.4**
Share of profit/(loss) of associates	–	–	0.1	–	–	(0.4)	(0.3)
Segment result	**(17.9)**	**83.0**	**54.4**	**65.2**	**90.7**	**53.1**	**328.5**
Finance costs							(15.2)
Profit before income tax							313.3
Income tax expense							(49.3)
Profit for the year attributable to equity shareholders							264.0
Claims ratio	74%	34%	5%	40%	18%	61%	45%
Expense ratio	51%	38%	45%	44%	31%	36%	39%
Combined ratio	125%	72%	50%	84%	49%	97%	84%
Segment assets and liabilities							
Segment assets	221.4	1,089.8	785.7	1,016.9	384.2	3,086.6	6,584.6
Segment liabilities	(187.1)	(701.2)	(614.9)	(852.6)	(269.8)	(2,620.3)	(5,245.9)
Net assets	**34.3**	**388.6**	**170.8**	**164.3**	**114.4**	**466.3**	**1,338.7**
Additional information							
Investment in associates	–	–	1.5	–	–	6.9	8.4
Impairment of non-financial assets	(7.5)	(0.1)	(0.1)	(0.2)	(0.2)	(4.8)	(12.9)
Capital expenditure	0.3	1.0	0.5	2.1	0.8	1.9	6.6
Amortisation and depreciation	(0.6)	(1.3)	(0.6)	(1.6)	(1.1)	(11.4)	(16.6)
Net cash flow	2.7	19.9	8.7	6.5	3.0	25.4	66.2

Notes to the financial statements *continued*

3 Segmental analysis *continued*

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc. An analysis of gross premiums written split geographically by placement of risk and by reportable segment is provided in note 2 on page 132.

	2014 $m	2013 $m
Net earned premiums		
Non US	1,617.2	1,556.2
US	41.7	34.3
	1,658.9	**1,590.5**

	2014 $m	2013 $m
Segment assets		
UK (Lloyd's)	6,133.0	6,263.5
US (Non-Lloyd's)	309.7	321.1
	6,442.7	**6,584.6**

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

	2014 $m	2013 $m
Capital expenditure		
Non US	5.5	5.4
US	0.2	1.2
	5.7	**6.6**

4 Net investment income

	2014 $m	2013 $m
Interest and dividends on financial investments at fair value through profit or loss	67.1	68.0
Interest on cash and cash equivalents	0.6	0.7
Realised losses on financial investments at fair value through profit or loss	(16.3)	(7.1)
Net unrealised fair value gains/(losses) on financial investments at fair value through profit or loss	41.9	(7.9)
Investment income from financial investments	**93.3**	**53.7**
Investment management expenses	(10.3)	(10.4)
	83.0	**43.3**

5 Other income

	2014 $m	2013 $m
Commissions received from Beazley service companies	14.2	23.2
Profit commissions from syndicates 623/6107	9.9	11.0
Agency fees from 623	2.3	2.0
Other income	0.2	0.2
	26.6	**36.4**

6 Operating expenses

	2014 $m	2013 $m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
– the auditing of accounts of the company's subsidiaries	1.2	1.2
– taxation compliance services	0.1	0.2
– all other assurance services not included above	0.4	0.3
– all other non-audit services not included above	–	–
	1.7	1.7
Impairment loss written back on reinsurance assets	(0.4)	(3.5)
Impairment loss recognised on intangible assets (refer to note 12)	–	11.5
Impairment loss recognised on investment in associates (refer to note 14)	–	1.4
Operating leases	9.2	8.8

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

7 Employee benefit expenses

	2014 $m	2013 $m (restated)
Wages and salaries	120.7	111.7
Short term incentive payments	68.7	62.4
Social security	18.7	11.8
Share-based remuneration	15.6	16.3
Pension costs*	10.0	8.7
	233.7	210.9
Recharged to syndicate 623	(34.5)	(31.6)
	199.2	**179.3**

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

Notes to the financial statements *continued*

8 Finance costs

	2014 $m	2013 $m
Interest expense	16.4	16.2
Profit on debt buyback	–	(2.1)
Other finance costs	–	1.1
	16.4	**15.2**

During 2013, Beazley bought back a total nominal amount of $39.5m of debt at market value of $37.4m in the form of fixed/floating rate subordinated notes falling due in 2026. A profit of $2.1m was realised in the difference between the carrying value and the nominal amount of the debt bought back. Refer to note 25 for further detail on the subordinated debt.

9 Income tax expense

	2014 $m	2013 $m
Current tax expense		
Current year	95.6	60.6
Prior year adjustments	5.5	4.3
	101.1	64.9
Deferred tax expense		
Origination and reversal of temporary differences	(55.2)	(12.1)
Impact of change in UK tax rates	0.4	–
Prior year adjustments	(2.2)	(3.5)
	(57.0)	(15.6)
Income tax expense	**44.1**	**49.3**
Profit before tax	**261.9**	**313.3**
Tax calculated at Irish rate	32.7	39.2
Rates applied	12.5%	12.5%
Effects of:		
– tax rates in foreign jurisdictions	4.9	10.5
– non-deductible expenses	3.5	1.7
– tax relief on share based payments – current and future years	(1.4)	(0.3)
– under provided in prior years	3.3	0.8
– change in UK tax rates*	0.4	(3.8)
– foreign exchange on tax	0.7	2.9
– foreign tax recoverable	–	(1.7)
Tax charge for the period	**44.1**	**49.3**

The weighted average applicable tax rate was 14.8% (2013: 15.9%). This is the weighted average of the tax rates applied to the profits earned in each country in which the group operates.

* The Budget 2013 announced that the UK corporation tax rate would reduce to 21% at 1 April 2014, with a further reduction to 20% in 2015. The reductions in the UK tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. The reduction to 20% will reduce the company's future current tax charge and the deferred tax liability as at 31 December 2014 has been calculated based on this tax rate.

10 Earnings per share

	2014	2013
Basic (cents)	43.1c	52.4c
Diluted (cents)	41.8c	51.2c
Basic (pence)	26.1p	33.6p
Diluted (pence)	25.3p	32.8p

Basic

Basic earnings per share are calculated by dividing profit after tax of $217.8m (2013: $264.0m) by the weighted average number of shares in issue during the year of 505.4m (2013: 503.7m). The shares held in the Employee Share Options Plan (ESOP) of 16.0m (2013: 17.3m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of $217.8m (2013: $264.0m) by the adjusted weighted average number of shares of 521.2m (2013: 515.4m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 16.0m (2013: 17.3m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

11 Dividends per share

A second interim dividend of 6.2p per ordinary share (2013: 5.9p) and a special dividend of 11.8p (2013: 16.1p) will be payable on 27 March 2015 to shareholders registered at 5.00pm on 27 February 2015 in respect of the six months ended 31 December 2014. The company expects the total amount to be paid in respect of the second interim and special dividend to be approximately £91m. These financial statements do not provide for the second interim dividend and the special dividend as a liability.

Together with the interim dividend of 3.1p (2013: 2.9p) this gives a total dividend for the year of 21.1p (2013: 24.9p).

The aforementioned interim and special dividends will be payable on 27 March 2015 to shareholders registered at 5.00pm on 27 February 2015 (save to the extent that shareholders on the register of members on 27 February 2015 are to be paid a dividend by a subsidiary of the company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

Notes to the financial statements *continued*

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2013	74.0	11.5	9.3	55.5	17.0	167.3
Other additions	–	–	–	5.1	–	5.1
Foreign exchange (loss)/gain	(2.0)	(0.8)	–	1.6	–	(1.2)
Balance at 31 December 2013	**72.0**	**10.7**	**9.3**	**62.2**	**17.0**	**171.2**
Balance at 1 January 2014	72.0	10.7	9.3	62.2	17.0	171.2
Other additions	–	–	–	5.3	–	5.3
Foreign exchange loss	–	–	–	(0.8)	–	(0.8)
Balance at 31 December 2014	**72.0**	**10.7**	**9.3**	**66.7**	**17.0**	**175.7**
Amortisation and impairment						
Balance at 1 January 2013	(10.0)	–	–	(39.1)	(3.1)	(52.2)
Amortisation for the year	–	–	–	(11.8)	(2.4)	(14.2)
Impairment	–	–	–	–	(11.5)	(11.5)
Foreign exchange loss	–	–	–	(1.7)	–	(1.7)
Balance at 31 December 2013	**(10.0)**	**–**	**–**	**(52.6)**	**(17.0)**	**(79.6)**
Balance at 1 January 2014	(10.0)	–	–	(52.6)	(17.0)	(79.6)
Amortisation for the year	–	–	–	(4.6)	–	(4.6)
Foreign exchange gain	–	–	–	3.1	–	3.1
Balance at 31 December 2014	**(10.0)**	**–**	**–**	**(54.1)**	**(17.0)**	**(81.1)**
Carrying amount						
31 December 2014	**62.0**	**10.7**	**9.3**	**12.6**	–	**94.6**
31 December 2013	62.0	10.7	9.3	9.6	–	91.6

12 Intangible assets *continued*

Impairment tests

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

2014	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	28.6	2.3	1.0	24.9	0.8	4.4	62.0
Capacity	0.3	1.6	0.7	2.5	0.8	4.8	10.7
Licences	–	–	–	1.9	–	7.4	9.3
Total	**28.9**	**3.9**	**1.7**	**29.3**	**1.6**	**16.6**	**82.0**

2013	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	28.6	2.3	1.0	24.9	0.8	4.4	62.0
Capacity	0.3	1.6	0.7	2.5	0.8	4.8	10.7
Licences	–	–	–	1.9	–	7.4	9.3
Total	**28.9**	**3.9**	**1.7**	**29.3**	**1.6**	**16.6**	**82.0**

When testing for impairment, the recoverable amount of a CGU is determined based on value in use. Value in use is calculated using projected cash flows based on financial budgets approved by management covering a five-year period taking into account historic growth rates and expected future market conditions. A pre tax discount rate of 10% (2013: 9%) has been used to discount the projected cash flows of each CGU. The same discount rate has been applied to all operating segments as these segments all undertake underwriting activities supported by the same capital base. The discount rate of 10% (2013: 9%) reflects the group's expected return on equity and cost of borrowing and has been calculated using independent measures of the risk-free rate of return and the group's risk profile relative to the risk-free and market rates of return and, as such, is considered representative of the rate appropriate to the risk specific to the CGU.

The impairment tests have been performed assuming the group's operating segments are the CGUs to which the intangible assets have been allocated. As at 31 December 2014, the financial budgets for the life, accident and health segment, in particular, have been challenged in light of the losses incurred in the past 2 years and management are comfortable the forecast profits are achievable, supporting the recoverability of the goodwill balance held. Headroom was calculated in respect of the value in use of all the group's other intangible assets.

Impairment losses

During 2013, there were indicators that the performance of certain insurance contracts relating to specific renewal rights within our life, accident & health and specialty lines divisions was not in line with expectation. As a result, the value in use of these renewal rights was estimated to be less than the carrying value and impairment losses, of $7.5m and $4.0m respectively, were recognised in the statement of profit or loss.

Notes to the financial statements *continued*

13 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2013	2.5	22.2	8.0	30.2
Additions	–	–	1.5	1.5
Foreign exchange (loss)/gain	(0.2)	–	0.1	0.1
Balance at 31 December 2013	**2.3**	**22.2**	**9.6**	**31.8**
Balance at 1 January 2014	**2.3**	**22.2**	**9.6**	**31.8**
Additions	–	0.2	0.2	0.4
Foreign exchange gain/(loss)	0.1	(0.9)	(0.2)	(1.1)
Balance at 31 December 2014	**2.4**	**21.5**	**9.6**	**31.1**
Accumulated depreciation				
Balance at 1 January 2013	(1.1)	(15.5)	(7.7)	(23.2)
Depreciation charge for the year	(0.2)	(2.0)	(0.4)	(2.4)
Foreign exchange gain/(loss)	0.1	(0.1)	(0.1)	(0.2)
Balance at 31 December 2013	**(1.2)**	**(17.6)**	**(8.2)**	**(25.8)**
Balance at 1 January 2014	**(1.2)**	**(17.6)**	**(8.2)**	**(25.8)**
Depreciation charge for the year	(0.2)	(1.6)	(0.8)	(2.4)
Foreign exchange (loss)/gain	(0.1)	0.7	0.3	1.0
Balance at 31 December 2014	**(1.5)**	**(18.5)**	**(8.7)**	**(27.2)**
Carrying amounts				
31 December 2014	**0.9**	**3.0**	**0.9**	**3.9**
31 December 2013	1.1	4.6	1.4	6.0

14 Investment in associates

Group	2014 $m	2013 $m
As at 1 January	**8.4**	**10.0**
Investment in Equinox Global Limited	1.6	0.1
Investment in Capson Corp. Inc	1.6	–
Impairment of Falcon Management Holdings Limited	–	(1.4)
Share of loss after tax	(1.1)	(0.3)
As at 31 December	**10.5**	**8.4**

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value $m
2014			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25%	–
Capson Corp., Inc. (and subsidiary)	USA	32%	7.6
Equinox Global Limited (and subsidiary)	UK	36%	2.9
			10.5

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

	2014 $m	2013 $m
Assets	38.1	38.0
Liabilities	22.7	24.7
Equity	15.4	13.3
Revenue	24.0	21.7
Loss after tax	(2.3)	(0.9)

All of the investments in associates are unlisted and are equity accounted using financial information as at 31 December 2014. Equinox Global Limited and Capson Corp Inc are both insurance intermediaries. Falcon Management Holdings Limited is an investment management company which also acts in an intermediary capacity.

During 2013, Falcon Money Management Holdings Limited (and subsidiaries) had indicated that due to a loss in future revenue, a restructuring of its operations is highly likely. As a result, the fair value of this investment was less than the carrying value and an impairment loss of $1.4m was recognised in the statement of profit or loss. The investment does not relate to a specific reportable segment and the impairment loss was allocated to all reportable segments (refer to note 3).

	2014 $m	2013 $m
As at 1 January	**–**	**1.4**
Impairment of Falcon Management Holdings Limited	–	(1.4)
As at 31 December	**–**	**–**

The company's investment in associates consists of:

Company	Country of incorporation	% interest held	Carrying value $m
2014			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25%	–

The aggregate financial information for the associate (100%) is as follows:

	2014 $m	2013 $m
Assets	8.2	11.8
Liabilities	4.6	9.3
Equity	–	2.5
Revenue	9.3	8.8
Profit after tax	–	–

The investment in the associate is unlisted and is equity accounted using unaudited financial information as at 31 December 2014.

Notes to the financial statements *continued*

15 Deferred acquisition costs

	2014 $m	2013 $m
Balance at 1 January	206.0	185.0
Additions	457.9	452.5
Amortisation charge	(441.2)	(431.5)
Balance at 31 December	**222.7**	**206.0**

16 Financial assets and liabilities

	2014 $m	2013 $m
Financial assets at fair value		
Fixed and floating rate debt securities:		
– Government issued	820.1	826.0
– Quasi-government	585.7	717.9
– Supranational	439.8	348.3
– Corporate bonds		
– Investment grade	1,111.5	1,268.4
– High yield	80.1	–
– Syndicated bank loans	101.5	–
– Asset backed securities	378.6	362.3
Total fixed and floating rate debt securities	3,517.3	3,522.9
Equity linked funds	145.9	139.7
Hedge funds (uncorrelated strategies)	367.0	369.8
Illiquid credit assets	45.9	6.8
Total capital growth	558.8	516.3
Total financial investments at fair value through statement of profit or loss	**4,076.1**	**4,039.2**
Derivative financial assets	1.3	4.4
Total financial assets at fair value	**4,077.4**	**4,043.6**

Quasi-government securities include securities which are issued by government agencies or entities supported by government guarantees. Supranational securities are issued by institutions sponsored by more than one sovereign issuer. Asset-backed securities are backed by financial assets, including mortgage, credit card and auto loan receivables. Investment grade credit assets are any corporate bonds rated as BBB-/Baa3 or higher by one or more major rating agency, while the remainder of our corporate bonds are rated as high yield. Equity linked funds are investment vehicles which are predominantly exposed to equity securities. Broadly speaking, we would expect the returns in our equity linked funds to track returns seen on worldwide, and particularly the US, stock markets. Our illiquid credit assets are described in further detail below. The fair value of these assets at 31 December 2014 excludes an unfunded commitment of $89.8m (2013: $nil).

The amounts expected to mature within and after one year are:	2014 $m	2013 $m
Within one year	807.0	930.0
After one year	2,711.6	2,597.3
Total	**3,518.6**	**3,527.3**

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, $126.0m (2013: $124.0m) of equity linked funds could be liquidated within two weeks and the balance within six months, $317.0m (2013: $326.0m) of hedge fund assets within six months and the remaining $50.0m (2013: $43.8m) of hedge fund assets within 18 months. Illiquid credit assets are not readily realisable and principal will be returned over the life of these assets, which may be up to ten years.

16 Financial assets and liabilities *continued*

Financial liabilities	2014 $m	2013 $m
Retail bond	115.8	123.0
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	122.5	132.1
Derivative financial liabilities	0.5	1.8
Total financial liabilities	**256.8**	**274.9**

The amounts expected to mature before and after one year are:		
Within one year	0.5	1.8
After one year	256.3	273.1
	256.8	**274.9**

A breakdown of the group's investment portfolio is provided on page 44.
A breakdown of derivative financial instruments is disclosed in note 17.

As noted on page 127 consideration is also given when valuing the hedge funds to any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest valuations. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2014 (2013: $nil).

The retail bond was issued by the company. Refer to note 25 for further details.

The group has given a fixed and floating charge over certain of its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary. Further details are provided in note 32.

Valuation hierarchy

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of government and government agencies which are measured based on quoted prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills which are not actively traded, corporate bonds, asset backed securities and mortgage-backed securities.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. The group uses prices and inputs that are current as of the measurement date for valuation of these instruments.

If the inputs used to measure the fair value of an asset or a liability can be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group has an established control framework and valuation policy with respect to the measurement of fair values.

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

Level 2 investments

For the group's level 2 debt securities our fund administrator obtains the prices used in the valuation from independent pricing vendors such as Bloomberg, Standard and Poor's, Reuters, Markit and International Data Corporation. The independent pricing vendors derive an evaluated price from observable market inputs. The market inputs include trade data, two-sided markets, institutional bids, comparable trades, dealer quotes, news media, and other relevant market data. These inputs are verified in their pricing engines and calibrated with the pricing models to calculate spread to benchmarks, as well as other pricing assumptions such as Weighted Average life (WM), Discount Margins (DM), Default rates, and recovery and prepayment assumptions for mortgage securities. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The group records the unadjusted price provided and validates the price through various tolerance checks such as comparison with the investment custodians and the investment managers to assess the reasonableness and accuracy of the price to be used to value the security. In the rare case that the price fails the tolerance test, it is escalated and discussed internally. We would not override the price on a retrospective basis, but we would work with the administrator and pricing vendor to investigate the difference. This generally results in the vendor updating their inputs. We also review the valuation policy on a regular basis to ensure it is fit for purpose. No adjustments have been made to the prices obtained from the administrator at the current year end.

For our hedge funds and equity linked funds, the pricing and valuation of each fund is undertaken by administrators in accordance with each underlying funds valuation policy. For the equity linked funds, the individual fund prices are published on a daily or weekly basis via Bloomberg and other market data providers such as Reuters. For the hedge funds, the individual fund prices are communicated by the administrators to all investors via the monthly investor statements. The fair value of the hedge fund and equity linked fund portfolios are calculated by reference to the underlying net asset values of each of the individual funds.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds and equity linked funds. We identified that 59% (2013: 70%) of these underlying assets were level 1 and the remainder level 2. This enables us to categorise hedge funds as level 2.

Prior to any new hedge fund investment, extensive due diligence is undertaken on each fund to ensure that pricing and valuation is undertaken by the administrators and that each fund's valuation policy is appropriate for the financial instruments the manager will be employing to execute the investment strategy. Fund liquidity terms are reviewed prior to the execution of any investment to ensure that there is no mismatch between the liquidity of the underlying fund assets and the liquidity terms offered to fund investors. As part of the monitoring process, underlying fund subscriptions and redemptions are assessed by reconciling the increase or decrease in fund assets with the investment performance in any given period.

Level 3 investments

During 2014, the group's investment committee approved additional allocations to an illiquid asset portfolio comprising investments in funds managed by third party managers (generally closed end Limited Partnerships or open ended funds). While the funds provide full transparency on their underlying investments, the investments themselves are in many cases private and unquoted, and are therefore classified as level 3 investments.

These inputs can be subjective and may include a discount rate applied to the investment based on market factors and expectations of future cash flows, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance relative to benchmarks, financial condition, and financing transactions subsequent to the acquisition of the investment.

We take the following steps to ensure accurate valuation of these level 3 assets. A substantial part of the preinvestment due diligence process is dedicated to a comprehensive review of each fund's valuation policy and the internal controls of the manager. In addition to this, confirmation that the investment reaches a minimum set of standards relating to the independence of service providers, corporate governance, and transparency is sought prior to approval. Post investment, unaudited capital statements confirming the fair value of the Limited Partner interests are received and reviewed on a quarterly (or more frequent) basis. Audited financial statements are received on an annual basis, with the valuation of each transaction being confirmed.

16 Financial assets and liabilities *continued*

The following table shows the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	779.7	40.4	–	820.1
– Quasi-government	310.3	275.4	–	585.7
– Supranational	323.2	116.6	–	439.8
– Corporate bonds				
– Investment bonds	48.2	1,063.3	–	1,111.5
– High yield	–	80.1	–	80.1
– Syndicated bank loans	–	101.5	–	101.5
– Asset backed securities	–	378.6	–	378.6
Equity linked funds	–	145.9	–	145.9
Hedge funds (uncorrelated strategies)	–	367.0	–	367.0
Illiquid credit assets	–	7.9	38.0	45.9
Derivative financial assets	1.3	–	–	1.3
Total financial assets measured at fair value	**1,462.7**	**2,576.7**	**38.0**	**4,077.4**
Financial liabilities measured at fair value				
Derivative financial liabilities	0.5	–	–	0.5
Financial liabilities not measured at fair value				
Retail bond	–	124.7	–	124.7
Tier 2 subordinated debt	–	127.1	–	122.5
Total financial liabilities not measured at fair value	**–**	**251.8**	**–**	**247.2**

2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	758.2	67.8	–	826.0
– Quasi-government	392.1	325.8	–	717.9
– Supranational	348.3	–	–	348.3
– Corporate bonds				
– Investment bonds	187.0	1,081.4	–	1,268.4
– High yield	–	–	–	–
– Syndicated bank loans	–	–	–	–
– Asset backed securities	–	362.3	–	362.3
Equity linked funds	–	139.7	–	139.7
Hedge funds (uncorrelated strategies)	–	369.8	–	369.8
Illiquid credit assets	–	6.8	–	6.8
Derivative financial assets	4.4	–	–	4.4
Total financial assets measured at fair value	**1,690.0**	**2,353.6**	**–**	**4,043.6**

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial liabilities measured at fair value				
Derivative financial liabilities	1.8	–	–	1.8

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial liabilities not measured at fair value				
Retail bond	–	128.9	–	128.9
Tier 2 subordinated debt	–	135.9	–	135.9
Total financial liabilities not measured at fair value	**–**	**264.8**	**–**	**264.8**

The table above does not include financial assets and liabilities that are, in accordance with the group's accounting policies, recorded at amortised cost, if the carrying amount of these financial assets and liabilities approximates their fair values at the reporting date.

Unconsolidated structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

As part of its standard investment activities the group holds investments in asset backed securities, equity linked funds, hedge funds and illiquid credit assets (the capital growth assets) which in accordance with IFRS 12 are classified as unconsolidated structured entities. The group does not sponsor any of the unconsolidated structured entities. The assets classified as unconsolidated structured entities are held at fair value on the balance sheet.

At 31 December 2014 the investments comprising the group's unconsolidated structured entities are as follows:

	2014 $m
Asset backed securities	378.6
Equity linked funds	145.9
Hedge funds (uncorrelated strategies)	367.0
Illiquid credit assets	45.9
Investments through unconsolidated structured entities	**937.4**

Transfers and level 3 investment reconciliations

There were no transfers in either direction between level 1, level 2 and level 3 in either 2013 or 2014.

The table below shows a reconciliation from the opening balances to the closing balances of level 3 fair values.

	2014 $m	2013 $m
As at 1 January	–	–
Purchases	38.0	–
Total net gains/(losses) recognised in profit or loss	–	–
As at 31 December	**38.0**	**–**

As described in note 2 to the financial statements, the group monitors and manages its currency exposures to net assets and financial assets held at fair value.

16 Financial assets and liabilities *continued*

The currency exposures of our financial assets held at fair value are detailed below:

2014	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	307.3	155.4	182.3	645.0	2,872.3	3,517.3
Equity linked funds	53.1	–	54.7	107.8	38.1	145.9
Hedge funds (uncorrelated strategies)	–	–	2.7	2.7	364.3	367.0
Illiquid credit assets	–	–	–	–	45.9	45.9
Derivative financial assets	–	–	0.1	0.1	1.2	1.3
Total	**360.4**	**155.4**	**239.8**	**755.6**	**3,321.8**	**4,077.4**

2013	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	421.4	167.5	192.6	781.5	2,741.4	3,522.9
Equity linked funds	53.9	–	49.9	103.8	35.9	139.7
Hedge funds (uncorrelated strategies)	–	–	18.8	18.8	351.0	369.8
Illiquid credit assets	–	–	–	–	6.8	6.8
Derivative financial assets	–	–	–	–	4.4	4.4
Total	**475.3**	**167.5**	**261.3**	**904.1**	**3,139.5**	**4,043.6**

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enables more comprehensive evaluation of Beazley's exposure to risks arising from financial instruments.

17 Derivative financial instruments

In 2014 and 2013 the group entered into over-the-counter and exchange traded derivative contracts. The group had the right and the intention to settle each contract on a net basis.

The assets and liabilities of these contracts at 31 December are detailed below:

	2014		2013	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Foreign exchange forward contracts	3.5	0.2	6.5	–
Bond future contract	128.0	1.1	64.1	4.4
	131.5	**1.3**	**70.6**	**4.4**

	2014		2013	
Derivative financial instrument liabilities	Gross contract amount $m	Fair value of liabilities $m	Gross contract amount $m	Fair value of liabilities $m
Foreign exchange forward contracts	44.6	0.4	170.0	1.8
Bond future contract	–	0.1	–	–
	44.6	**0.5**	**170.0**	**1.8**

Foreign exchange forward contracts

The group entered into over-the-counter foreign exchange forward agreements in order to hedge the foreign currency exposure resulting from transactions and balances held in currencies that are different to the functional currency of the group.

Bond future contract

The group entered in bond futures trades to manage the investment portfolio duration. The vast majority of the trades were executed in order to partially hedge the duration of fixed income securities held at the same time. Occasionally, bond future contracts were traded in order to gain interest rate duration exposure to certain areas of the yield curve.

Notes to the financial statements *continued*

18 Insurance receivables

	2014 $m	2013 $m
Insurance receivables	587.0	617.7
	587.0	**617.7**

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are classified as loans and receivables and their carrying values approximate fair value at the reporting date.

19 Reinsurance assets

	2014 $m	2013 $m
Reinsurers' share of claims	874.8	992.9
Impairment provision	(14.1)	(14.5)
	860.7	978.4
Reinsurers' share of unearned premium reserve	192.5	199.8
	1,053.2	**1,178.2**

Further analysis of the reinsurance assets is provided in note 24.

20 Cash and cash equivalents

Group	2014 $m	2013 $m
Cash at bank and in hand	261.0	266.6
Short term deposits and highly liquid investments	103.2	116.1
	364.2	**382.7**

Total cash and cash equivalents include $42.2m held in Lloyd's Singapore trust accounts. These funds are only available for use by the group to meet local claim and expense obligations.

Company	2014 $m	2013 $m
Cash at bank and in hand	1.2	1.2
	1.2	**1.2**

21 Share capital

	2014		2013	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Authorised	700.0	55.8	700.0	55.8
Issued and fully paid	521.4	41.6	521.0	41.6
Balance at 1 January	**521.0**	**41.6**	**521.0**	**41.6**
Issue of shares	0.4	–	–	–
Balance at 31 December	**521.4**	**41.6**	**521.0**	**41.6**

22 Other reserves

	Merger reserve $m	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Group				
Balance at 1 January 2013	**(15.4)**	**23.0**	**(50.2)**	**(42.6)**
Share based payments	–	19.1	–	19.1
Acquisition of own shares held in trust	–	–	(17.7)	(17.7)
Reclassification of reserves*	–	(4.3)	4.3	–
Transfer of shares to employees	–	(11.3)	14.7	3.4
Balance at 31 December 2013	**(15.4)**	**26.5**	**(48.9)**	**(37.8)**
Share based payments	–	15.3	–	15.3
Acquisition of own shares held in trust	–	–	(12.5)	(12.5)
Transfer of shares to employees	–	(11.6)	14.5	2.9
Balance at 31 December 2014	**(15.4)**	**30.2**	**(46.9)**	**(32.1)**

	Merger reserve $m	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Company				
Balance at 1 January 2013	**(35.4)**	**(0.8)**	**(15.6)**	**(51.8)**
Share based payments	–	19.1	–	19.1
Acquisition of own shares held in trust	–	–	(17.7)	(17.7)
Transfer of shares to employees	–	(11.3)	14.7	3.4
Balance at 31 December 2013	**(35.4)**	**7.0**	**(18.6)**	**(47.0)**
Share based payments	–	15.3	–	15.3
Acquisition of own shares held in trust	–	–	(12.5)	(12.5)
Transfer of shares to employees	–	(11.6)	14.5	2.9
Balance at 31 December 2014	**(35.4)**	**10.7**	**(16.6)**	**(41.3)**

* Reclassification of reserves relates to the balance in employee share options reserve previously included in the merger reserve caption with effect from 9 June 2009, being the date of the reverse acquisition of Beazley plc. The employee share options reserve also included the IFRS 2 provision for plans that have vested subsequent to 9 June 2009 but were not cleared down upon vesting. This adjustment and foreign exchange differences on transfers have also been reflected.

The merger reserve has arisen as a result of historic Beazley group restructuring. The most significant item is the reverse acquisition that occurred in 2009.

The employee share option reserve is held in accordance with IFRS 2 share-based payment. For more information refer to note 23.2.

More information on the employee share trust reserve is included in note 23.

Notes to the financial statements *continued*

23 Equity compensation plans

23.1 Employee share trust

	2014		2013	
	Number (m)	$m	Number (m)	$m
Costs debited to employee share trust reserve				
Balance at 1 January	18.7	48.9	20.0	50.2
Additions	3.1	12.5	5.0	17.7
Transfer of shares to employees	(5.7)	(14.5)	(6.3)	(14.7)
Reclassification of reserves	–	–	–	(4.3)
Balance at 31 December	**16.1**	**46.9**	**18.7**	**48.9**

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan, retention plan and long term incentive 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 employee. Under the retention plan, on the third to the sixth anniversary, and each year after that, 25.0% of the shares awarded are transferred to the employee.

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

23.2 Employee share option plans

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

The terms and conditions of the grants are as follows:

Share option plan	Grant date	No. of options (m)	Vesting conditions	Contractual life of options
MSIP	04/04/2013	0.5	Three years' service + ROE	10 years
MSIP	04/04/2013	0.5	Five years' service + ROE	10 years
LTIP	11/02/2014 13/02/2013 30/03/2012 14/02/2011 18/02/2010	1.6 2.1 2.6 2.4 2.6	Five years' service + NAV + minimum shareholding requirement	10 years
LTIP	11/02/2014 13/02/2013 30/03/2012	1.6 2.1 2.6	Three years' service + NAV + minimum shareholding requirement	10 years
SAYE (UK)	09/05/2014 10/04/2013 11/04/2012 11/04/2011	1.1 0.4 0.7 0.0	Three years' service	N/A
SAYE (US)	03/06/2014 03/06/2013	0.1 0.1	Two years' service	N/A
Total share options outstanding		**21.0**		

Vesting conditions

In summary the vesting conditions are defined as:

- two years' service – an employee has to remain in employment until the second anniversary from the grant date;
- three years' service – an employee has to remain in employment until the third anniversary from the grant date;
- ROE – return on equity, based on the average marine divisional pre-tax return on equity (ROE) over the performance period;
- NAV – the NAV growth, after adjusting for the effect of dividends, is greater than the risk-free rate of return plus a premium per year; and
- TSR comparator – the group's TSR growth is compared with that of members of the comparator group over a three-year period starting with the year in which the award is made.

23 Equity compensation plans *continued*

Further details of equity compensation plans can be found in the directors' remuneration report on pages 83 to 108. The number and weighted average exercise prices of share options are as follows:

	2014		2013	
	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	**9.4**	**19.6**	**10.3**	**17.3**
Forfeited during the year	143.0	(0.1)	27.3	(0.7)
Exercised during the year	13.2	(2.9)	16.6	(2.8)
Granted during the year	54.9	4.4	21.3	5.8
Outstanding at 31 December	**17.9**	**21.0**	**9.4**	**19.6**
Exercisable at 31 December	–	–	–	0.1

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

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

	2014 $m	2013 $m
Share options charge to employee share option reserve	**15.3**	**19.1**
Weighted average share price (pence per option)	182.8	155.3
Weighted average exercise price (pence per option)	17.9	9.4
Average expected life of options	4.7yrs	4.8yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	3.8%	4.0%
Average risk-free interest rate	3.3%	3.4%

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

24 Insurance liabilities and reinsurance assets

	2014 $m	2013 $m
Gross		
Claims reported and loss adjustment expenses	984.7	1,023.0
Claims incurred but not reported	2,540.2	2,597.5
Gross claims liabilities	3,524.9	3,620.5
Unearned premiums	1,022.5	956.8
Total insurance liabilities, gross	**4,547.4**	**4,577.3**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	195.0	253.7
Claims incurred but not reported	665.7	724.7
Reinsurers' share of claims liabilities	860.7	978.4
Unearned premiums	192.5	199.8
Total reinsurers' share of insurance liabilities	**1,053.2**	**1,178.2**

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

	2014 $m	2013 $m
Net		
Claims reported and loss adjustment expenses	789.7	769.3
Claims incurred but not reported	1,874.5	1,872.8
Net claims liabilities	2,664.2	2,642.1
Unearned premiums	830.0	757.0
Total insurance liabilities, net	**3,494.2**	**3,399.1**

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

24.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2014			2013		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	1,023.0	(253.7)	769.3	1,058.9	(266.7)	792.2
Claims incurred but not reported	2,597.5	(724.7)	1,872.8	2,533.3	(699.4)	1,833.9
Balance at 1 January	**3,620.5**	**(978.4)**	**2,642.1**	**3,592.2**	**(966.1)**	**2,626.1**
Claims paid	(924.8)	186.5	(738.3)	(860.3)	146.3	(714.0)
Increase in claims						
– Arising from current year claims	1,156.5	(180.5)	976.0	1,160.9	(223.8)	937.1
– Arising from prior year claims	(257.0)	98.9	(158.1)	(283.8)	65.8	(218.0)
Net exchange differences	(70.3)	12.8	(57.5)	11.5	(0.6)	10.9
Balance at 31 December	**3,524.9**	**(860.7)**	**2,664.2**	**3,620.5**	**(978.4)**	**2,642.1**
Claims reported and loss adjustment expenses	984.7	(195.0)	789.7	1,023.0	(253.7)	769.3
Claims incurred but not reported	2,540.2	(665.7)	1,874.5	2,597.5	(724.7)	1,872.8
Balance at 31 December	**3,524.9**	**(860.7)**	**2,664.2**	**3,620.5**	**(978.4)**	**2,642.1**

b) Unearned premiums reserve

	2014			2013		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	**956.8**	**(199.8)**	**757.0**	**891.6**	**(221.2)**	**670.4**
Increase in the year	2,021.8	(297.9)	1,723.9	1,970.2	(313.5)	1,656.7
Release in the year	(1,956.1)	305.2	(1,650.9)	(1,905.0)	334.9	(1,570.1)
Balance at 31 December	**1,022.5**	**(192.5)**	**830.0**	**956.8**	**(199.8)**	**757.0**

24 Insurance liabilities and reinsurance assets *continued*

24.2 Assumptions, changes in assumptions and sensitivity analysis

a) Process used to decide on assumptions

The peer review reserving process

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

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

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

The group has a consistent reserving philosophy with initial reserves being set to include risk margins which may be released over time as uncertainty reduces.

Actuarial assumptions

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

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

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

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

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

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

Where significant large losses impact an underwriting year (e.g. the events of 11 September 2001, the hurricanes in 2004, 2005, 2008 and 2012, or the earthquakes in 2010 and 2011), the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected.

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

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

b) Major assumptions

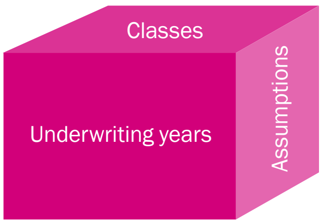
The main assumption underlying these techniques is that the group's past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of premiums, paid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

Throughout, judgement is used to assess the extent to which past trends may or 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.

- *Life, accident & health*
- *Marine*
- *Political risks & contingency*
- *Property*
- *Reinsurance*
- *Specialty lines*



1993 1994 ... 2013 2014

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

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

d) Sensitivity analysis

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

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

Since year end 2004, we have identified a range of possible outcomes for each class and underwriting year combination directly from our individual capital assessment (ICA) process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and the relative uncertainties of the business written.

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

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2014 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2004 ae %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %
Life, accident & health											
12 months						53.1	52.8	56.0	56.7	63.3	64.4
24 months						52.4	52.5	52.2	68.1	64.6	
36 months						45.3	49.0	59.7	65.9		
48 months						43.5	48.0	56.9			
60 months						42.6	47.5				
72 months						41.6					
84 months											
96 months											
108 months											
120 months											
Marine											
12 months		82.9	57.2	58.3	69.2	55.3	50.6	55.1	56.0	56.7	57.7
24 months		81.4	42.4	60.3	65.2	51.6	49.7	47.8	46.2	51.9	
36 months		71.6	32.8	50.7	59.1	44.9	44.0	39.7	34.7		
48 months		69.7	29.0	48.2	63.0	41.3	42.4	34.3			
60 months		67.4	28.8	49.6	62.6	41.0	40.8				
72 months		65.5	26.4	50.2	59.0	49.3					
84 months		64.7	26.3	46.9	55.3						
96 months		64.3	25.7	44.2							
108 months		64.4	25.4								
120 months		64.0									
Political risks & contingency											
12 months		61.0	57.3	57.2	57.5	61.1	61.4	58.7	62.5	57.3	56.0
24 months		38.3	36.3	39.4	67.9	38.6	40.3	39.0	43.0	42.4	
36 months		28.7	32.5	56.5	74.0	35.1	33.0	34.1	39.7		
48 months		24.7	43.5	53.2	87.5	30.4	23.8	28.5			
60 months		18.5	39.5	53.7	72.3	24.6	22.5				
72 months		18.1	39.3	49.9	61.4	18.7					
84 months		18.1	36.4	47.4	58.1						
96 months		12.4	30.8	49.3							
108 months		12.4	28.2								
120 months		12.2									
Property											
12 months		88.2	58.5	58.3	71.2	53.9	58.6	59.2	55.8	55.3	53.3
24 months		84.9	44.2	56.4	65.9	42.5	61.9	51.4	48.1	49.5	
36 months		83.5	43.2	53.8	64.8	37.5	59.8	49.3	40.4		
48 months		88.5	50.5	54.6	62.9	36.4	57.1	47.4			
60 months		87.9	50.7	57.9	61.3	35.3	54.4				
72 months		86.3	50.5	66.6	60.3	34.3					
84 months		85.5	49.8	66.8	59.1						
96 months		84.7	47.6	66.0							
108 months		83.5	46.6								
120 months		83.3									

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2004 ae %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	
Reinsurance												
12 months		199.2	52.4	59.6	60.1	60.8	68.1	77.8	62.9	59.1	60.9	
24 months		191.8	25.4	25.7	52.3	48.0	150.7	77.6	36.4	45.2		
36 months		188.4	25.0	21.4	43.4	40.1	139.0	71.8	31.1			
48 months		182.8	23.4	19.7	40.1	39.6	133.0	68.0				
60 months		178.9	21.5	18.8	39.7	35.4	137.0					
72 months		176.1	21.2	18.7	39.9	32.6						
84 months		175.1	21.4	17.2	39.1							
96 months		174.8	20.9	16.3								
108 months		171.2	20.3									
120 months		170.1										
Specialty lines												
12 months		72.1	72.6	72.9	72.1	72.7	73.9	75.7	74.1	73.5	68.5	
24 months		72.1	72.7	72.4	72.0	72.7	74.0	75.7	74.1	73.3		
36 months		69.9	72.6	72.3	72.0	71.9	72.9	76.5	72.2			
48 months		66.5	72.9	72.3	72.1	71.4	73.3	75.4				
60 months		63.0	70.9	72.4	71.7	71.6	69.2					
72 months		56.2	65.9	72.3	72.0	68.2						
84 months		52.5	61.9	72.3	70.2							
96 months		49.2	58.3	71.3								
108 months		47.5	57.1									
120 months		46.4										
Total												
12 months		91.1	63.8	64.5	69.3	63.1	64.7	67.4	64.6	63.9	62.1	
24 months		88.7	53.9	60.2	67.7	57.3	72.9	63.0	58.1	59.3		
36 months		84.8	51.5	59.0	66.3	53.5	68.9	61.0	53.2			
48 months		83.4	53.4	58.4	67.6	52.0	67.0	58.4				
60 months		80.6	52.0	59.4	65.7	51.0	64.8					
72 months		76.8	49.3	61.2	64.1	50.0						
84 months		74.8	47.3	60.3	62.1							
96 months		72.8	44.7	59.4								
108 months		71.5	43.6									
120 months		70.7										
Total ultimate losses ($m)	2,966.8	1,055.2	730.1	1,086.8	1,204.9	1,054.3	1,334.1	1,113.0	1,151.7	1,314.7	1,448.6	14,460.2
Less paid claims ($m)	(2,791.6)	(995.6)	(612.1)	(885.8)	(1,013.1)	(749.0)	(966.4)	(691.9)	(420.9)	(322.0)	(48.3)	(9,496.7)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(12.2)	(720.6)	(732.8)
Gross claims liabilities (100% level) ($m)	**175.2**	**59.6**	**118.0**	**201.0**	**191.8**	**305.3**	**367.7**	**421.1**	**730.8**	**980.5**	**679.7**	**4,230.7**
Less unaligned share ($m)	(33.5)	(11.3)	(21.6)	(38.9)	(35.0)	(52.1)	(62.3)	(81.2)	(111.4)	(154.5)	(104.0)	(705.8)
Gross claims liabilities, group share ($m)	**141.7**	**48.3**	**96.4**	**162.1**	**156.8**	**253.2**	**305.4**	**339.9**	**619.4**	**826.0**	**575.7**	**3,524.9**

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2004 ae %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %
Life, accident & health											
12 months						51.7	51.5	55.1	58.0	65.5	62.7
24 months						50.7	52.1	54.2	65.0	68.1	
36 months						44.5	52.0	62.9	63.5		
48 months						45.2	51.0	59.9			
60 months						44.4	50.4				
72 months						43.3					
84 months											
96 months											
108 months											
120 months											
Marine											
12 months		55.4	54.1	55.5	61.4	54.1	52.3	56.0	55.4	56.3	56.6
24 months		49.5	42.1	56.6	56.9	48.1	49.4	48.0	46.0	53.1	
36 months		43.1	32.9	49.6	50.7	39.5	44.7	39.3	37.4		
48 months		39.9	31.4	46.7	47.6	35.8	42.9	35.1			
60 months		39.3	30.9	47.5	47.1	35.5	41.6				
72 months		38.3	29.1	47.6	46.6	39.1					
84 months		36.8	29.0	45.1	45.3						
96 months		36.4	28.5	43.2							
108 months		36.6	28.1								
120 months		36.1									
Political risks & contingency											
12 months		63.6	56.0	55.4	55.9	59.0	57.3	54.9	59.3	54.7	52.9
24 months		46.9	40.5	40.1	75.8	35.1	37.9	37.8	41.4	41.5	
36 months		36.3	36.9	55.2	76.5	32.5	30.6	32.3	38.2		
48 months		29.9	47.3	54.3	80.0	27.9	21.6	29.8			
60 months		24.6	41.5	52.4	69.3	22.4	20.4				
72 months		23.6	40.0	49.1	58.8	17.5					
84 months		23.6	39.9	47.0	55.3						
96 months		15.5	37.2	48.6							
108 months		15.5	33.7								
120 months		15.3									
Property											
12 months		65.1	61.2	61.1	67.3	53.7	59.0	60.5	58.7	56.8	54.6
24 months		62.3	48.9	59.4	67.3	48.3	66.2	57.9	53.3	56.4	
36 months		58.7	47.3	58.6	65.0	44.9	66.6	54.4	46.4		
48 months		61.3	51.0	59.0	64.0	42.7	60.7	51.1			
60 months		61.9	50.1	62.0	62.9	42.1	58.6				
72 months		60.2	50.2	62.3	61.6	40.8					
84 months		59.3	49.8	62.3	60.9						
96 months		59.4	48.2	61.9							
108 months		57.8	47.5								
120 months		57.2									

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2004 ae %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	
Reinsurance												
12 months		152.3	54.3	55.3	67.8	55.6	76.8	87.7	67.1	56.8	58.1	
24 months		135.2	37.0	29.8	58.4	52.2	136.4	87.9	43.7	51.5		
36 months		127.9	34.9	24.9	49.0	46.4	129.6	82.3	37.5			
48 months		120.2	32.7	22.7	47.0	45.8	124.8	76.5				
60 months		113.8	31.2	22.1	46.4	41.0	131.0					
72 months		112.4	31.3	21.9	46.6	37.7						
84 months		107.0	31.6	20.1	45.5							
96 months		106.6	30.9	19.1								
108 months		101.7	29.9									
120 months		100.7										
Specialty lines												
12 months		69.3	68.6	69.8	70.2	69.9	71.3	72.7	71.3	69.6	66.0	
24 months		69.3	68.6	68.7	70.2	69.8	71.3	72.7	70.8	69.1		
36 months		67.6	68.7	68.6	70.1	69.1	70.7	71.9	68.9			
48 months		64.0	67.8	67.5	68.8	66.1	69.7	69.7				
60 months		59.0	63.9	67.4	68.2	65.9	69.1					
72 months		53.9	57.6	67.4	68.1	64.9						
84 months		50.4	54.1	67.5	68.1							
96 months		47.9	50.8	67.2								
108 months		45.9	49.7									
120 months		44.7										
Total												
12 months		73.2	62.1	63.1	66.8	60.8	64.4	67.0	64.1	62.3	60.6	
24 months		69.4	54.4	59.3	66.7	56.8	70.0	63.7	58.2	60.1		
36 months		65.4	51.8	58.6	64.5	53.3	67.7	60.7	53.6			
48 months		62.9	52.5	57.6	63.4	50.7	64.7	57.6				
60 months		59.8	50.1	58.2	61.9	49.7	64.5					
72 months		56.7	47.1	58.0	60.6	48.9						
84 months		54.1	45.5	57.2	59.9							
96 months		52.4	43.4	56.7								
108 months		50.7	42.4									
120 months		49.9										
Total ultimate losses ($m)	1,849.5	588.8	586.5	894.9	941.9	812.2	1,094.4	941.3	938.2	1,116.9	1,192.9	10,957.5
Less paid claims ($m)	(1,736.0)	(540.2)	(502.5)	(749.5)	(795.4)	(619.4)	(825.8)	(609.4)	(387.1)	(294.5)	(45.3)	(7,105.1)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(21.0)	(630.4)	(651.4)
Net claims liabilities (100% level) ($m)	**113.5**	**48.6**	**84.0**	**145.4**	**146.5**	**192.8**	**268.6**	**331.9**	**551.1**	**801.4**	**517.2**	**3,201.0**
Less unaligned share ($m)	(21.6)	(9.2)	(16.0)	(25.7)	(25.8)	(36.7)	(46.2)	(60.7)	(86.0)	(128.1)	(80.8)	(536.8)
Net claims liabilities, group share ($m)	**91.9**	**39.4**	**68.0**	**119.7**	**120.7**	**156.1**	**222.4**	**271.2**	**465.1**	**673.3**	**436.4**	**2,664.2**

24 Insurance liabilities and reinsurance assets *continued*

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2014 for each underwriting year.

Life, accident & health

Ultimate net loss ratio reductions were observed on the 2012 and prior underwriting years, due to favourable claims developments on PA Reinsurance. The 2013 underwriting year deteriorated due to worse than expected experience on Life Direct and PA Direct.

Marine

The 2011, 2012 and 2013 underwriting years have seen reductions in net ultimate loss ratios due to benign claims experience. A strengthening was seen on the 2009 underwriting year due to a large claim on Energy PD.

Political risks & contingency

Positive development was observed across the majority of years, with the exception of 2007, which saw a slight deterioration on trade credit-related claims. Improvements were seen on the political book, in particular on 2009 due to a material reduction in claims exposure.

Property

There have been positive developments across all underwriting years, driven by reserve releases on previous natural catastrophes, favourable attritional experience and benign natural catastrophe experience on the 2013 underwriting year.

Reinsurance

There were releases across all years with the exception of 2010. This was caused by an increase in reserves held in respect of the New Zealand earthquakes, due to a revision of market estimates. Reductions were made to reserves held for previous natural catastrophes. Margin was released from the 2012 and 2013 underwriting years following benign catastrophe experience.

Specialty lines

Releases from the 2003 to 2006 underwriting years continued following increased certainty on remaining claims. The 2012 and 2013 underwriting years also saw releases as a result of run off of risk on the cyber business. The recession exposed years remain stable.

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Claim releases

The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by department and period. Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released from prior year reserves where risks have expired during 2014.

The net of reinsurance estimates of ultimate claims costs on the 2013 and prior underwriting years has improved by $158.1m during 2014 (2013: $218.0m). This movement arose from a combination of better than expected claims experience coupled with small changes to the many assumptions resulting from the observed experience and anticipating any changes as a result of the new business written.

The movements shown on 2011 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2014	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	66.6	146.8	45.8	157.2	87.8	471.8	976.0
Prior year							
– 2011 underwriting year and earlier	(3.8)	(15.0)	(12.8)	(19.6)	(9.1)	(18.3)	(78.6)
– 2012 underwriting year	(1.0)	(19.6)	(0.8)	(17.3)	(8.6)	(11.4)	(58.7)
– 2013 underwriting year	0.4	(5.6)	(6.5)	1.0	(10.1)	–	(20.8)
	(4.4)	(40.2)	(20.1)	(35.9)	(27.8)	(29.7)	(158.1)
Net insurance claims	**62.2**	**106.6**	**25.7**	**121.3**	**60.0**	**442.1**	**817.9**

2013	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	66.2	136.0	44.1	155.9	85.1	449.8	937.1
Prior year							
– 2010 underwriting year and earlier	(1.4)	(14.8)	(27.8)	(18.9)	(18.4)	(43.4)	(124.7)
– 2011 underwriting year	7.0	(21.4)	(3.8)	(8.0)	(9.6)	(3.2)	(39.0)
– 2012 underwriting year	(1.0)	(11.1)	(7.8)	(6.8)	(27.6)	–	(54.3)
	4.6	(47.3)	(39.4)	(33.7)	(55.6)	(46.6)	(218.0)
Net insurance claims	**70.8**	**88.7**	**4.7**	**122.2**	**29.5**	**403.2**	**719.1**

25 Borrowings

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

Group	2014 $m	2013 $m
Carrying value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	122.5	132.1
Retail bond	115.8	123.0
	256.3	**273.1**
Fair value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	127.1	135.9
Retail bond	124.7	128.9
	269.8	**282.8**

Company	2014 $m	2013 $m
Carrying value		
Retail bond	115.8	123.0
Fair value		
Retail bond	124.7	128.9

The fair value of the tier 2 subordinated debt and retail bond is based on quoted market prices. For the subordinated debt that is not quoted, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

In November 2004, the group issued subordinated debt of US $18m to JPMorgan Chase Bank, N.A. (JPMorgan). The loan is unsecured and interest is payable at the USD London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. The subordinated notes are due in November 2034 and have been callable at the group's option since 2009.

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first call at the group's option in October 2016. Interest of 7.25% per annum is paid annually in arrears for the period up to October 2016. From October 2016, the notes will bear annual interest at the rate of 3.28% above LIBOR. In February 2013 we bought back an additional nominal amount of £26.2m, bringing the total debt buyback since 2012 to £73.5m. Refer to note 8 for further detail on the debt buyback. No buybacks were enacted in 2014.

In September 2012, the group issued £75m of sterling denominated 5.375% notes due 2019. Interest at a fixed rate of 5.375% is payable in March and September each year.

In addition to these borrowings we operate a syndicated short term banking facility, managed through Lloyds Banking Group plc. In June 2013 we renewed our syndicated short term banking facility led by Lloyds Banking Group plc. The facility provides potential borrowings up to $225m. The agreement is based on a commitment fee of 0.6% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2016, whilst letters of credit issued under the facility can be used to provide support for the 2013, 2014 and 2015 underwriting years. The facility is currently unutilised.

Notes to the financial statements *continued*

26 Other payables

Group	2014 $m	2013 $m
Reinsurance premiums payable	115.2	191.3
Accrued expenses including staff bonuses	111.9	89.4
Other payables	2.0	4.5
Deferred consideration payable on acquisition of MGAs	5.3	7.1
Due to syndicate 6107	21.1	15.5
	255.5	**307.8**

Company	2014 $m	2013 $m
Other payables	2.0	1.8
	2.0	**1.8**

All other payables are payable within one year of the reporting date other than deferred consideration which is payable after one year. The carrying value approximates fair values.

27 Retirement benefit obligations

	2014 $m	2013 $m
Present value of funded obligations	43.6	39.9
Fair value of plan assets	(41.0)	(37.5)
Retirement benefit liability in the statement of financial position	**2.6**	**2.4**
Amounts recognised in the statement of profit or loss		
Interest cost	1.7	1.3
Expected return on plan assets	(1.7)	(1.3)
	–	–

Beazley Furlonge Limited operates a defined benefit pension scheme (‘the Beazley Furlonge Limited Pension Scheme’). The scheme provides the following benefits:

- an annual pension payable to the member from his or her normal pension age (60th birthday) of generally 1/60th of final pensionable salary for each year of pensionable service up to 31 March 2006;
- a spouse’s pension of 2/3rds of the member’s pension payable on the member’s death after retirement;
- a lump sum of four times current pensionable salary for death in service at the date of death; and
- a pension of 2/3rds of the member’s prospective pension at the date of death, payable to the spouse until their death. This pension is related to salary at the date of death.

The scheme is administered by a trust that is legally separated from the group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules.

The scheme exposes the group to additional actuarial, interest rate and market risk.

Contributions to the scheme are determined by a qualified actuary using the projected unit method as set out in the scheme rules and the most recent valuation was at 31 December 2014. The group expects to pay $1.6m in contributions to the scheme in 2015.

27 Retirement benefit obligations *continued*

	2014 $m	2013 $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**39.9**	**33.1**
Interest cost	1.7	1.3
Actuarial losses	5.2	4.9
Benefits paid	(0.4)	(0.3)
Foreign exchange (gain)/loss	(2.8)	0.9
Balance at 31 December	**43.6**	**39.9**
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**37.5**	**32.4**
Expected return on plan assets	1.7	1.3
Actuarial gains	3.2	1.8
Employer contributions	1.7	1.6
Benefits paid	(0.4)	(0.3)
Foreign exchange (loss)/gain	(2.7)	0.7
Balance at 31 December	**41.0**	**37.5**
Plan assets are comprised as follows:		
Equities	20.3	20.2
Bonds	16.4	14.3
Cash	4.3	3.0
Total	**41.0**	**37.5**

The actual gain on plan assets was $4.9m (2013: $3.1m).

	2014 $m	2013 $m
Principal actuarial assumptions		
Discount rate	3.4%	4.4%
Inflation rate	3.0%	3.4%
Expected return on plan assets	3.4%	4.4%
Future salary increases	3.0%	6.2%
Future pensions increases	2.6%	2.9%
Life expectancy for members aged 60 at 31 December	90 years	90 years
Life expectancy for members aged 46 at 31 December	92 years	92 years

At 31 December 2014, the weighted-average duration of the defined benefit obligation was 12.4 years (2013: 12.8 years).

Notes to the financial statements *continued*

27 Retirement benefit obligations *continued*

Sensitivity analyses

Changes in the relevant actuarial assumptions would result in a change in the value of the funded obligation as shown below:

31 December 2014	Increase $m	Decrease $m
Discount rate (0.5% increase)	5.9	–
Inflation rate (0.3% decrease)	–	3.1
Future salary changes (0.5% decrease)	–	0.2
Life expectancy (1 year increase)	1.1	–

31 December 2013	Increase $m	Decrease $m
Discount rate (0.5% decrease)	5.4	–
Inflation rate (0.3% decrease)	–	2.8
Future salary changes (0.5% decrease)	–	0.2
Life expectancy (1 year increase)	0.9	–

28 Deferred tax

	2014 $m	2013 $m
Deferred tax asset	9.0	8.7
Deferred tax liability	(8.5)	(65.0)
	0.5	**(56.3)**

The movement in the net deferred income tax is as follows:		
Balance at 1 January	(56.3)	(73.0)
Income tax credit	57.0	15.6
Amounts recorded through equity	0.3	0.7
Foreign exchange translation differences	(0.5)	0.4
Balance at 31 December	**0.5**	**(56.3)**

	Balance 1 Jan 14 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 14 $m
Plant and equipment	0.5	(0.2)	–	–	0.3
Intangible assets	1.4	(0.1)	–	–	1.3
Underwriting profits	(69.1)	55.0	–	–	(14.1)
Tax losses	8.7	0.2	–	–	8.9
Other	2.2	2.1	0.3	(0.5)	4.1
Net deferred income tax account	**(56.3)**	**57.0**	**0.3**	**(0.5)**	**0.5**

	Balance 1 Jan 13 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 13 $m
Plant and equipment	0.4	0.1	–	–	0.5
Intangible assets	0.2	1.2	–	–	1.4
Underwriting profits	(204.1)	135.0	–	–	(69.1)
Tax losses	127.1	(118.4)	–	–	8.7
Other	3.4	(2.3)	0.7	0.4	2.2
Net deferred income tax account	**(73.0)**	**15.6**	**0.7**	**0.4**	**(56.3)**

28 Deferred tax *continued*

The group has tax adjusted losses carried forward giving rise to a deferred tax asset of $1.5m, measured at the UK corporation tax rate from 1 April 2015 of 20%. The deferred tax asset has not been recognised on the group balance sheet in the current year as losses are not expected to be utilised in the foreseeable future based on the current taxable profit estimates and forecasts of the underlying entity in question.

29 Operating lease commitments

The group leases land and buildings under non-cancellable operating lease agreements.

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

	2014 $m	2013 $m
No later than one year	8.5	8.2
Later than one year and no later than five years	32.6	30.7
Later than five years	14.5	18.6
	55.6	**57.5**

30 Related party transactions

The group and company have related party relationships with syndicates 623 and 6107, its subsidiaries, associates and its directors.

30.1 Syndicates 623 and 6107

The group received management fees and profit commissions for providing a range of management services to syndicates 623 and 6107, which are managed by the group. In addition, the group ceded portions or all of a group of insurance policies to syndicate 6107. The participants on 623/6107 are solely third party capital.

Details of transactions entered into and the balances with these syndicates are as follows:

	2014 $m	2013 $m
Written premium ceded to syndicates	23.7	23.8
Other income received from syndicates	25.6	30.8
Services provided	41.0	33.3
Balances due:		
Due from syndicate 623	7.3	17.0
Due to syndicate 6107	(21.1)	(15.5)

30.2 Key management compensation

	2014 $m	2013 $m
Salaries and other short term benefits	21.0	19.7
Post-employment benefits	0.9	0.8
Share-based remuneration	13.5	9.4
	35.4	**29.9**

Key management include executive and non-executive directors and other senior management.

Further details of directors' shareholdings and remuneration can be found in the directors' remuneration report on pages 83 to 108.

Notes to the financial statements *continued*

30 Related party transactions *continued*

30.3 Other related party transactions

At 31 December 2014, the group had a balance payable to an associate (Falcon Money Management Limited) of $0.9m (2013: payable $0.1m) and purchased services from the associate of $9.4m (2013: $8.8m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis. During the year Beazley invested $1.6m in Capson Corp Inc and $1.6m in Equinox Global Limited (to support this associate's ongoing operations following a significant loss incurred).

31 Parent company and subsidiary undertakings

Beazley plc, a Jersey incorporated Irish domiciled company, is the ultimate parent and the ultimate controlling party within the group. The board of Beazley plc is considering re-domiciling the company to the United Kingdom and expects to make a decision in this regard in the coming months. The potential re-domiciliation of the company would have no material impact to the operating activities or the financial position of the group.

The following is a list of all the subsidiaries in the group:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary ($m)
Beazley Group Limited*	England	100%	Intermediate holding company	USD	*
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley DAS Limited	England	100%	Dividend access scheme	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.3) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.4) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.5) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Re Limited	Ireland	100%	Reinsurance of Lloyd's business	USD	747.2
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Australian Income Protection Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.	USA	100%	Underwriting admitted lines	USD	
First State Management Group, Inc.	USA	100%	Insurance services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Middle East Limited	Dubai	100%	Insurance services	USD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
Swift No.1 Limited	England	100%	Intermediate holding company	USD	
Swift No.2 Limited	England	100%	Intermediate holding company	USD	
					747.2

* Beazley plc holds direct investment in Beazley Group Limited of $2.

32 Contingencies

32.1 Funds at Lloyd's

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

	Underwriting year 2015 £m	Underwriting year 2014 £m	Underwriting year 2013 £m
Debt securities and other fixed income securities	513.9	563.0	558.0

33 Foreign exchange rates

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

	2014		2013	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.61	0.64	0.64	0.60
Canadian dollar	1.10	1.16	1.03	1.06
Euro	0.75	0.83	0.76	0.72

34 Subsequent events

There are no events that are material to the operations of the group that have occurred since the reporting date.

Glossary

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

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

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

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

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

Capital growth assets
These are assets that do not pay a regular income and target an increase in value over the long term. They will typically have a higher risk and volatility than that of the core portfolio. Currently these are the hedge funds, equity linked funds and illiquid credit assets.

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

Claims
Demand by an insured for indemnity under an insurance contract.

Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange.

Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange.

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

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

Earnings per share (EPS) – basic/diluted
Ratio, in pence and cents, calculated by dividing the consolidated profit after tax by the weighted average number of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for certain dilutive potential ordinary shares such as share options granted to employees.

Economic Capital Requirement (ECR)
The capital required by a syndicate's members to support their underwriting. Calculated as the uSCR 'uplifted' by 35% to ensure capital is in place to support Lloyd's ratings and financial strength.

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

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

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

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

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

Horizontal limits
Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)
These are anticipated or likely claims that may result from an insured event although no claims have been reported so far.

International Accounting Standards Board (IASB)
An independent accounting body responsible for developing IFRS (see below).

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

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

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

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

Managing general agent (MGA)
An insurance intermediary acting as an agent on behalf of an insurer.

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

Net assets per share
Ratio, in pence and cents, calculated by dividing the net assets (total equity) by the number of shares issued.

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

Private enterprise
The private enterprise team offers specialised professional and general liability coverage supported by a high service proposition, focusing on meeting the needs of small businesses with assets up to $35 million and up to 500 employees.

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

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

Reinsurance special purpose syndicate
A special purpose syndicate (SPS) created to operate as a reinsurance 'sidecar' to Beazley's treaty account, capitalising on Beazley's position in the treaty reinsurance market.

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

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

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

Return on equity (ROE)
Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily 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.

Sidecar special purpose syndicate
Specialty reinsurance company designed to provide additional capacity to a specific insurance company. It operates by purchasing a portion or all of a group of insurance policies, typically cat exposures. These companies have become quite prominent in the aftermath of Hurricane Katrina as a vehicle to add risk-bearing capacity, and for investors to participate in the potential profits resulting from sharp price increases.

Glossary *continued*

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

Solvency Capital Requirement on an ultimate basis (uSCR)
The capital requirement under Solvency II calculated by Beazley's internal model which captures the risk in respect of the planned underwriting for the prospective year of account in full covering ultimate adverse development and all exposures.

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

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

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

Unearned premiums reserve
The portion of premium income in the business year that is attributable to periods after the reporting date in the underwriting provisions.

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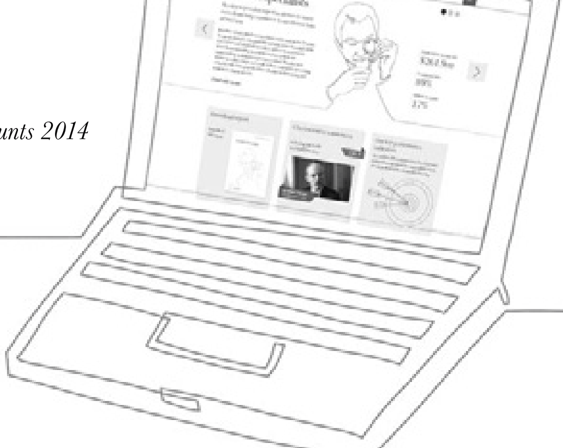

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