REG - Beazley PLC -Results for year ended 31st December 2012

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Press Release

Beazley delivers strong growth and record profits in 2012

Dublin, 7 February 2013

Beazley plc results for year ended 31st December 2012

- Profit before income tax of $251.2m (2011: $62.7m)
- Return on equity of 19% (2011: 6%)
- Gross written premiums increased by 11% to $1,895.9m (2011: $1,712.5m)
- Combined ratio of 91% (2011: 99%)
- Rate increase on renewal portfolio of 3% (2011: 1%)
- Net investment income of $82.6m (2011: $39.3m)
- Second interim dividend of 5.6p, taking total dividends for the year to 8.3p (2011: 7.9p) up 5% plus a special dividend of 8.4p
- Offer to acquire all of the outstanding Tier 2 subordinated debt at par
- Considering a second retail bond for up to £75m

	Year ended 31 December 2012	Year ended 31 December 2011	% movement
Gross written premiums ($m)	**1,895.9**	**1,712.5**	11%
Net written premiums ($m)	**1,542.7**	**1,374.0**	12%
Profit before income tax ($m)	**251.2**	**62.7**	
Earnings per share (pence)	**26.7p**	**8.1p**	
Net assets per share (pence)	**148.4p**	**137.6p**	
Net tangible assets per share (pence)	**134.3p**	**120.8p**	
Dividend per share (pence)	**8.3p**	**7.9p**	
Special dividend	**8.4p**	**-**	

Andrew Horton, Chief Executive Officer, said:

"Beazley performed very strongly in 2012, delivering double digit premium growth and record profits. We continue to add new products and lines of business to our diversified portfolio and

see further opportunities to grow profitably in the year ahead."

"Today's announcement of a special dividend, a debt buyback and plans for a further retail bond demonstrate our continued active approach to capital management. Our focus is on generating value for shareholders while maintaining our financial strength and flexibility."

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Note to editors:

Beazley plc (BEZ.L), is the parent company of specialist insurance businesses with operations in Europe, the US, Asia and Australia. Beazley manages five Lloyd's syndicates and, in 2012, underwrote gross premiums worldwide of $1,895.9 million. All Lloyd's syndicates are rated A by A.M. Best.

Beazley's underwriters in the United States focus on writing a range of specialist insurance products. In the admitted market, coverage is provided by Beazley Insurance Company, Inc., an A.M. Best A rated carrier licensed in all 50 states. In the surplus lines market, coverage is provided by the Beazley syndicates at Lloyd's.

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

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

Chairman's statement

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

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

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

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

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

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

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

The board has discussed future capital needs in light of our growth plans and - supported by our new internal model designed for the Solvency II regulatory regime - has concluded that it is appropriate to declare a special dividend. We also discussed making fuller utilisation of our debt capacity in the future as this leverages the capital efficiency of the Lloyd's platform - where we place 98% of the risk we write. The dividend we propose above will ensure that the group's equity capital does not grow beyond our medium term needs. At the same time, the surplus capital we are retaining, backed up by our unutilised debt capacity and strong earnings generation, afford us significant flexibility to take advantage of emerging opportunities.

To what uses will these resources be put? In particular we are not relying on the insurance cycle to move in a particular direction, nor on a hardening market to achieve our growth. Events such as superstorm Sandy

will have repercussions on premium rates that are increasingly localised and short-lived as capital flows in and out of insurance markets ever more efficiently. Nevertheless, market conditions will affect the pace at which we are able to grow and the particular lines of business that we grow. We are confident that if market conditions remain as they are we will still find opportunities to grow.

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

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

To accommodate the different approaches that will bring success in different markets, Beazley has needed to be operationally flexible. It has also needed to maintain excellent broker relationships. In both of these areas significant progress has been made in 2012.

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

Board changes

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

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

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

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

Dennis Holt
Chairman

7 February 2013

Chief executive's review

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

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

For the group, prior year reserve releases were $126.0m (2011: $186.5m, which were boosted by the release of margins in catastrophe related business). Beazley continues its philosophy of reserving prudently

and on average we expect reserve releases as we settle claims.

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

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

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

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

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

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

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

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

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

Also within our marine division, we have been delighted to welcome Michael Sharp, who will be building a kidnap & ransom (K&R) insurance account as well as taking charge of the development of our marine piracy business. We have long been a leading provider of piracy cover to shipowners and operators plying dangerous sea-lanes in areas such as the Gulf of Aden. The combination of insurance and expert advisory and negotiation services required in the market for piracy cover is similar to that required in the terrestrial K&R market. Other growth opportunities derive from taking products that have performed well in one geographic market and offering them in other markets where demand is emerging. In 2012, we launched a new data breach offering in Europe and Latin America, building on the success of our Beazley Breach Response product in the US. These regions possess two of the three main drivers of demand for data breach cover that have underpinned the success of our US product in the past two years: a massive proliferation of sensitive personal customer data held by companies and a surge of negative publicity arising from high profile data breaches. The third driver of demand - exacting regulatory requirements on

how and when data breach victims should be notified - does not yet exist but is in prospect in the European Union and elsewhere.

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

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

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

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

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

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

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

Andrew Horton
Chief executive

7 February 2013

Financial review

Income statement

	2012 $m	2011 $m	Movement %
Gross premiums written	1,895.9	1,712.5	11%
Net premiums written	1,542.7	1,374.0	12%
Net earned premiums	1,478.5	1,385.0	7%
Net investment income	82.6	39.3	110%
Other income	24.7	28.1	(12%)
Revenue	**1,585.8**	**1,452.4**	
Net insurance claims	778.4	850.5	(8%)
Acquisition and administrative expenses	563.5	517.3	9%
Foreign exchange (gain)/loss	(11.0)	4.1	-
Expenses	**1,330.9**	**1,371.9**	
Share of loss of associate	(0.5)	(1.0)	(50%)
Finance costs	(3.2)	(16.8)	(81%)

Profit before tax	**251.2**	**62.7**	
Income tax (expense)/credit	(36.6)	3.1	-
Profit after tax	**214.6**	**65.8**	
Claims ratio	53%	62%	
Expense ratio	38%	37%	
Combined ratio	91%	99%	
Rate increase	3%	1%	
Investment return	2.0%	1.0%	

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

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

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

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

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

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

Cumulative renewal rate changes since 2001 below*:

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Life, Accident & Health	0%	0%	0%	0%	0%	0%	0%	0%	100%	100%	101%	101%
Marine	100%	117%	128%	127%	130%	140%	131%	123%	131%	127%	127%	127%
Political Risk & Contingency	100%	120%	122%	114%	107%	101%	93%	89%	88%	86%	85%	84%
Property	100%	128%	133%	126%	124%	140%	137%	128%	135%	130%	134%	142%
Reinsurance	100%	143%	150%	149%	150%	190%	198%	186%	202%	196%	204%	215%
Specialty Lines	100%	137%	166%	174%	176%	177%	168%	158%	157%	155%	154%	159%
All divisions	100%	132%	145%	146%	147%	155%	149%	140%	144%	141%	142%	146%

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

property in 2012 where commercially beneficial terms were available to the group. A similar increase was seen in gross premiums written in this division during the year.

Reinsurance is purchased for a number of reasons:

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

Combined ratio

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

Claims

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

Reserve releases

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

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

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

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

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

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

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

Acquisition costs and administrative expenses

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

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

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

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

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

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

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

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

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

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

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

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

Comparison of return by major asset class:

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

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

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

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

Summary statement of financial position

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

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

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

Reinsurance assets
Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $966.1m, and the unearned reinsurance premiums reserve of $221.2m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $266.6m and an actuarial estimate of recoveries on claims that have not yet been reported of $699.5m. The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (eg minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium-tail);
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by our reinsurance security committee and credit control committees.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2012 we had provided $18.0m (2011: $15.7m) in respect of reinsurance recoveries.

Insurance receivables
Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2012 was $578.0m, an increase of 3.5% over 2011 ($558.7m). We continue to outsource the collection of our Lloyd's premium broker balances to Randall and Quilter Investment Holdings plc, which operates within the Lloyd's market as specialist credit controllers.

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

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

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

Our unearned premium reserve has increased by 10% to $891.6m. The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid and an estimate of claims incurred but not yet reported (IBNR). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased by 2% to $3,592.2m.

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

- In 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that is payable in 2026 and callable in 2016. In 2012 we bought back a total of £47.3m of this debt in two tranches, firstly the acquisition of £30m of the debt in May 2012 at a price of 85% of par. On 29 October we bought in a second tranche of the existing subordinated debt, £17.3m was acquired at a price of 96% of par. The initial interest rate payable is 7.25% and the nominal value of this debt as at 31 December 2012 is £103m;
- A US$18m subordinated debt facility raised in 2004. This loan is also unsecured and interest is payable at the US interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009; and
- During September 2012 we issued a sterling denominated 5.375% retail bond under a £250,000,000 euro medium term note programme which raised £75m for the group and are due in 2019. This diversified the source and maturity profile of the group's debt financing.

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

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 (FSA, Lloyd's, Central Bank of Ireland, and the US state level supervisors).

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

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

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

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

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

Our funding comes from a mixture of our own equity of $1,211.7m alongside £102.7m of tier 2 subordinated debt, $18m subordinated long-term debt, a £75.0m retail bond and an undrawn banking facility of $225.

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

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

Available surplus	**260.3**	**202.1**
Unutilised banking facility	**225.0**	**225.0**

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

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

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

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

The increase in our funds at Lloyd's from £482.9m to £558.0m is in proportion to the increase in business planned and the changes in the economic conditions. These numbers are presented in the table above in US dollars, being $876.0m and $742.9m for 2013 and 2012 respectively, which have been translated at the spot exchange rate at reporting dates.

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

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

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

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

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

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

- Beazley Insurance Company, Inc. (BICI) - insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services Inc. (BUSA) - managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.

GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 $m	2011 $m
Gross premiums written	2	1,895.9	1,712.5
Written premiums ceded to reinsurers		(353.2)	(338.5)
Net premiums written	**2**	**1,542.7**	**1,374.0**
Change in gross provision for unearned premiums		(82.5)	20.6
Reinsurer's share of change in the provision for unearned premiums		18.3	(9.6)
Change in net provision for unearned premiums		(64.2)	11.0
Net earned premiums	**2**	**1,478.5**	**1,385.0**
Net investment income	3	82.6	39.3
Other income	4	24.7	28.1
		107.3	67.4
Revenue		**1,585.8**	**1,452.4**
Insurance claims		902.8	1,168.9
Insurance claims recoverable from reinsurers		(124.4)	(318.4)
Net insurance claims	**2**	**778.4**	**850.5**
Expenses for the acquisition of insurance contracts	2	408.5	390.7
Administrative expenses	2	155.0	126.6
Foreign exchange(gain)/ loss	2	(11.0)	4.1
Operating expenses		**552.5**	**521.4**
Expenses	**2**	**1,330.9**	**1,371.9**
Share of loss of associate		(0.5)	(1.0)
Results of operating activities		**254.4**	**79.5**
Finance costs	7	(3.2)	(16.8)
Profit before income tax		**251.2**	**62.7**
Income tax expense	8	(36.6)	3.1
Profit for the year attributable to equity shareholders		**214.6**	**65.8**
Earnings per share (cents per share):			
Basic	9	42.4	13.0
Diluted	9	41.3	12.4
Earnings per share (pence per share):			
Basic	9	26.7	8.1
Diluted	9	26.0	7.7

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

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

Total comprehensive income recognised	**216.9**	**68.3**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

Company	**Share capital $m**	**Share premium $m**	**Foreign currency translation reserve $m**	**Other reserves $m**	**Retained earnings $m**	**Total $m**
Balance at 1 January 2011	42.7	0.7	(35.9)	(61.4)	781.9	728.0
Total comprehensive income recognised	-	-	-	-	76.2	76.2
Dividends paid	-	-	-	-	(82.8)	(82.8)
Issue of shares	0.1	0.4	-	-	-	0.5

Equity settled share based payments	-	-	-	9.3	-	9.3
Acquisition of own shares in trust	-	-	-	(6.0)	-	(6.0)
Purchase of treasury shares	-	-	-	(1.2)	-	(1.2)
Balance at 31 December 2011	**42.8**	**1.1**	**(35.9)**	**(59.3)**	**775.3**	**724.0**
Total comprehensive income recognised	-	-	-	-	43.0	43.0
Dividends paid	-	-	-	-	(65.1)	(65.1)
Issue of shares	0.2	1.6	-	(0.2)	-	1.6
Equity settled share based payments	-	-	-	12.4	-	12.4
Acquisition of own shares in trust	-	-	-	(25.1)	-	(25.1)
Reclassification of reserves	-	9.3	-	(9.7)	0.4	-
Cancellation of treasury shares	(1.4)	-	-	30.1	(28.7)	-
Balance at 31 December 2012	**41.6**	**12.0**	**(35.9)**	**(51.8)**	**724.9**	**690.8**

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

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

Notes to the financial statements

1 Statement of accounting policies
Beazley plc is a company incorporated in Jersey and domiciled in Ireland. The group financial statements for the year ended 31 December 2012 comprise the parent company and its subsidiaries and the group's interest in associates.

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

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

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

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

The following is a list of standards that are in issue but are not effective in 2012, but have been endorsed for use in the EU, together with the effective date of application to the group:
IFRS 7: Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2013)
IFRS 10: Consolidated financial statements (effective 1 January 2014)
IFRS 11: Joint arrangements (effective 1 January 2014)
IFRS 12: Disclosure of interests in other entities (effective 1 January 2014)
IAS 1 Amendment: Presentation of other items of comprehensive income (effective 1 January 2013)
IAS 19 Amendment: Defined benefit plans (effective 1 January 2013)
IAS 27 Amendment: Separate financial statements (effective 1 January 2014)
IAS 28 Amendment: Investments in associates and joint ventures (effective 1 January 2014)
IAS 32 Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2014)

In addition, the following is a list of standards that are in issue but are not effective in 2012, and have not yet been endorsed for use in the EU, together with the effective date of application to the group:
IFRS 9: Financial Instruments (effective 1 January 2015)
Improvements to IFRSs (effective 1 January 2013)

The implications of these standards and interpretations are under review.

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

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

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in note 11 (on insurance liabilities and reinsurance assets).

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

2 Segmental analysis
a) Reporting segments

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

The operating segments are based upon the different types of insurance risk underwritten by the group as described below:

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

Marine

This segment underwrites a broad spectrum of marine classes including hull, energy, cargo and specie, piracy, aviation, kidnap and ransom and war risks.

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

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

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The reporting segments do not cross-sell business to each other. There are no individual policyholders who comprise greater than 10% of the group's total gross premiums written.

b) Segment information

2012	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	94.4	311.2	116.6	376.7	188.6	808.4	1,895.9
Net premiums written	75.3	283.1	102.3	275.7	146.7	659.6	1,542.7
Net earned premiums	80.3	279.6	98.1	266.4	139.0	615.1	1,478.5
Net investment income	1.1	8.0	4.4	11.1	8.9	49.1	82.6
Other income	1.1	3.1	1.9	10.2	0.4	8.0	24.7
Revenue	**82.5**	**290.7**	**104.4**	**287.7**	**148.3**	**672.2**	**1,585.8**
Net insurance claims	46.4	116.9	11.7	140.4	87.3	375.7	778.4
Expenses for the acquisition of insurance contracts	20.8	71.6	25.6	103.0	27.5	160.0	408.5
Administrative expenses	18.6	20.7	14.1	24.4	12.7	64.5	155.0
Foreign exchange loss	(0.6)	(1.9)	(0.7)	(2.1)	(1.1)	(4.6)	(11.0)
Expenses	**85.2**	**207.3**	**50.7**	**265.7**	**126.4**	**595.6**	**1,330.9**
Share of loss of associate	-	-	(0.2)	-	-	(0.3)	(0.5)
Segment result	**(2.7)**	**83.4**	**53.5**	**22.0**	**21.9**	**76.3**	**254.4**
Finance costs							(3.2)
Profit before income tax							**251.2**
Income tax expense							(36.6)
Profit for the year attributable to equity shareholders							**214.6**
Claims ratio	58%	42%	12%	53%	63%	61%	53%
Expense ratio	49%	33%	40%	48%	29%	37%	38%
Combined ratio	107%	75%	52%	101%	92%	98%	91%

Segment assets and liabilities

Segment assets	214.9	1,048.5	768.1	1,003.0	378.2	3,042.7	6,455.4

Segment liabilities	(166.0)	(685.7)	(609.6)	(882.2)	(323.8)	(2,576.4)	(5,243.7)
Net assets	**48.9**	**362.8**	**158.5**	**120.8**	**54.4**	**466.3**	**1,211.7**

Additional information

Capital expenditure	0.4	0.9	0.5	1.3	0.5	4.8	8.4
Amortisation and depreciation	1.5	1.2	0.5	2.3	0.7	11.7	17.9
Net cash flow	(0.8)	(4.0)	(1.5)	(1.3)	(0.5)	(5.5)	(13.6)

2011	**Life, accident & health $m**	**Marine $m**	**Political risks & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Segment results							
Gross premiums written	86.9	274.2	102.5	359.4	178.3	711.2	1,712.5
Net premiums written	80.3	245.1	85.2	273.9	130.4	559.1	1,374.0
Net earned premiums	74.0	231.7	84.3	283.7	131.7	579.6	1,385.0
Net investment income	1.3	3.4	2.0	5.7	4.0	22.9	39.3
Other income	1.6	2.4	1.2	11.0	0.7	11.2	28.1
Revenue	**76.9**	**237.5**	**87.5**	**300.4**	**136.4**	**613.7**	**1,452.4**
Net insurance claims	35.6	82.6	35.4	179.0	171.7	346.2	850.5
Expenses for the acquisition of insurance contracts	21.2	66.5	22.6	104.4	25.6	150.4	390.7
Administrative expenses	13.4	18.4	8.6	25.6	10.0	50.6	126.6
Foreign exchange loss	0.2	0.7	0.2	0.9	0.4	1.7	4.1
Expenses	**70.4**	**168.2**	**66.8**	**309.9**	**207.7**	**548.9**	**1,371.9**
Share of loss of associate	-	-	-	-	-	(1.0)	(1.0)
Segment result	**6.5**	**69.3**	**20.7**	**(9.5)**	**(71.3)**	**63.8**	**79.5**
Finance costs							(16.8)
Profit before income tax							**62.7**
Income tax credit							3.1
Profit for the year attributable to equity shareholders							**65.8**
Claims ratio	48%	36%	42%	63%	130%	60%	62%
Expense ratio	47%	36%	37%	46%	27%	34%	37%
Combined ratio	95%	72%	79%	109%	157%	94%	99%

Segment assets and liabilities

Segment assets	200.3	949.8	729.8	965.8	365.9	2,907.1	6,118.7
Segment liabilities	(140.8)	(636.8)	(608.8)	(859.9)	(327.2)	(2,474.2)	(5,047.7)
Net assets	**59.5**	**313.0**	**121.9**	**105.9**	**38.7**	**432.9**	**1,071.0**

Additional information

Capital expenditure	0.7	1.4	0.5	3.4	1.1	6.4	13.5
Amortisation and depreciation	0.8	0.9	0.8	2.5	0.5	9.4	14.9
Net cash flow	(5.0)	(22.9)	(9.5)	(11.2)	(10.9)	(35.4)	(94.9)

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.

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

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

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

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

3 Net investment income

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

4 Other income

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

5 Operating expenses

	2012 $m	2011 $m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
- the auditing of accounts of the company's subsidiaries	1.1	1.1
- taxation compliance services	0.2	0.2
- all other assurance services not included above	0.4	0.3

- all other non-audit services not included above	0.1	-
	1.8	1.6
Operating leases	9.7	7.5

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

6 Employee benefit expenses

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

* Pension costs refer to the contributions made under the defined contribution scheme.

7 Finance costs

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

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

8 Income tax expense

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

- Foreign exchange on tax	0.7	(0.9)
- Restriction of foreign tax recoverable	1.7	-
- Utilisation of tax losses brought forward	(1.5)	-
Tax charge for the period	**36.6**	**(3.1)**

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

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

9 Earnings per share

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

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

Diluted
Diluted earnings per share are calculated by dividing profit after tax of $214.6m (2011: $65.8m) by the adjusted weighted average number of shares of 519.5m (2011: 530.4m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 13.3m (2011: 12.6m) have been excluded from the calculation, until such time as they vest unconditionally with the employees. The weighted average number of treasury shares of nil (2011: 17.4m) has been excluded from the calculation.

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

Together with the interim dividend of 2.7p (2011: 2.5p) this gives a total dividend for the year of 16.7p (2010: 7.9p).

The second interim dividend will be payable on 2 April 2013 to shareholders registered at 5.00pm on 1 March 2013 (save to the extent that shareholders on the register of members on 1 March 2013 are to be paid a dividend by a subsidiary of the company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

11 Insurance liabilities and reinsurance assets

	2012 $m	**2011 $m**
Gross		
Claims reported and loss adjustment expenses	1,058.9	1,085.6
Claims incurred but not reported	2,533.3	2,440.6
Gross claims liabilities	3,592.2	3,526.2
Unearned premiums	891.6	808.4
Total insurance liabilities, gross	**4,483.8**	**4,334.6**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	266.7	252.4
Claims incurred but not reported	699.4	743.3

Reinsurers share of claims liabilities	966.1	995.7
Unearned premiums	221.2	202.2
Total reinsurers' share of insurance liabilities	**1,187.3**	**1,197.9**
Net		
Claims reported and loss adjustment expenses	792.2	833.2
Claims incurred but not reported	1,833.9	1,697.3
Net claims liabilities	2,626.1	2,530.5
Unearned premiums	670.4	606.2
Total insurance liabilities, net	**3,296.5**	**3,136.7**

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

Movements in insurance liabilities and reinsurance assets
a) Claims and loss adjustment expenses

	2012			**2011**		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Claims reported and loss adjustment expenses	1,085.6	(252.4)	833.2	818.5	(202.4)	616.1
Claims incurred but not reported	2,440.6	(743.3)	1,697.3	2,404.1	(621.4)	1,782.7
Balance at 1 January	3,526.2	(995.7)	2,530.5	3,222.6	(823.8)	2,398.8
Claims paid	(852.0)	200.8	(651.2)	(871.7)	188.8	(682.9)
Increase in claims						
- Arising from current year claims	1,101.9	(197.4)	904.5	1,386.4	(349.4)	1,037.0
- Arising from prior year claims	(199.1)	73.1	(126.0)	(217.5)	31.0	(186.5)
Net exchange differences	15.2	(46.9)	(31.7)	6.4	(42.3)	(35.9)
Balance at 31 December	**3,592.2**	**(966.1)**	**2,626.1**	**3,526.2**	**(995.7)**	**2,530.5**
Claims reported and loss adjustment expenses	1,058.9	(266.7)	792.2	1,085.6	(252.4)	833.2
Claims incurred but not reported	2,533.3	(699.4)	1,833.9	2,440.6	(743.3)	1,697.3
Balance at 31 December	**3,592.2**	**(966.1)**	**2,626.1**	**3,526.2**	**(995.7)**	**2,530.5**

b) Unearned premiums reserve

	2012			**2011**		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Balance at 1 January	808.4	(202.2)	606.2	824.2	(211.1)	613.1
Increase in the year	1,895.9	(366.8)	1,529.1	1,712.5	(338.5)	1,374.0
Release in the year	(1,812.7)	347.8	(1,464.9)	(1,728.3)	347.4	(1,380.9)
Balance at 31 December	**891.6**	**(221.2)**	**670.4**	**808.4**	**(202.2)**	**606.2**

Assumptions, changes in assumptions and sensitivity analysis
a) Process used to decide on assumptions

The peer review reserving process
Beazley uses a quarterly dual track process to set its reserves:

- the actuarial team uses several actuarial and statistical methods to estimate the ultimate premium and claims costs. The most appropriate methods are selected depending on the nature of each class of business; and
- the underwriting teams concurrently review the development of the incurred loss ratio over time, work with our claims managers to set reserve estimates for identified claims and utilise their

detailed understanding of both risks underwritten and the nature of the claims to establish an alternative estimate of ultimate claims cost which is compared to the actuarially established figures.

A formal internal peer review process is then undertaken to determine the reserves held for accounting purposes which, in totality, are not lower than the actuarially established figure. The group also commissions an annual independent review to ensure that the reserves established are reasonable or within a reasonable range.

The group has a consistent reserving philosophy with initial reserves being set to include risk margins which may be released over time as uncertainty reduces.

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

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

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

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

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

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

Where significant large losses impact an underwriting year (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.

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

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

c) Changes in assumptions
As already discussed, general insurance business requires many different assumptions.

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

d) Sensitivity analysis
The estimation of IBNR reserves for future claim notifications is subject to a greater degree of uncertainty than the estimation of the outstanding claims already notified. This is particularly true for the specialty lines

business, which will typically display greater variations between initial estimates and final outcomes as a result of the greater degree of difficulty in estimating these reserves. The estimation of IBNR reserves for other business written is generally subject to less variability as claims are generally reported and settled relatively quickly.

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

Since year end 2004, we have identified a range of possible outcomes for each class and underwriting year combination directly from our individual capital assessment (ICA) process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and the relative uncertainties of the business written.

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

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2012 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Gross ultimate claims	**2002 ae %**	**2003 %**	**2004 %**	**2005 %**	**2006 %**	**2007 %**	**2008 %**	**2009 %**	**2010 %**	**2011 %**	**2012 %**
Life, accident & health											
12 months								53.1	52.8	50.2	51.0
24 months								52.2	52.4	46.6	
36 months								45.0	48.9		
48 months								43.3			
60 months											
72 months											
84 months											
96 months											
108 months											
120 months											
Marine											
12 months		59.3	62.2	82.6	57.1	57.9	69.1	56.2	50.6	55.1	55.9
24 months		45.0	65.3	80.4	42.6	60.2	65.1	52.3	49.7	47.9	
36 months		39.0	62.3	70.8	33.0	50.6	59.0	45.6	43.9		
48 months		36.2	61.8	68.8	29.2	48.2	62.8	42.0			
60 months		35.8	60.7	66.6	28.9	49.6	62.5				
72 months		35.7	56.2	64.7	26.6	50.2					
84 months		34.9	55.9	63.9	26.5						
96 months		35.5	55.7	63.6							
108 months		34.9	55.6								
120 months		35.3									
Political risks & contingency											
12 months		59.1	67.6	61.0	57.5	57.2	57.5	61.1	61.4	58.8	62.5
24 months		36.3	55.7	38.2	36.2	39.1	67.3	38.6	40.3	38.5	
36 months		31.6	52.4	28.6	32.8	56.4	73.0	35.6	32.9		
48 months		28.6	38.2	24.9	43.2	52.9	86.7	30.9			
60 months		30.9	37.2	18.3	39.2	53.6	71.7				
72 months		25.0	35.3	17.9	38.9	49.9					

84 months		24.1	26.7	17.8	36.1						
96 months		21.2	26.5	12.3							
108 months		21.2	26.3								
120 months		21.2									
Property											
12 months		51.0	65.4	87.3	58.6	58.4	71.1	54.0	58.8	59.5	55.9
24 months		37.7	65.2	84.1	44.6	56.6	66.1	43.0	62.2	51.7	
36 months		34.9	65.8	82.6	43.7	54.4	65.0	38.0	60.2		
48 months		34.3	63.9	87.5	51.1	55.3	63.0	36.8			
60 months		33.9	64.4	86.9	51.2	58.8	61.5				
72 months		34.0	63.1	85.3	51.0	67.3					
84 months		35.1	62.9	84.5	50.3						
96 months		34.9	63.5	83.7							
108 months		34.6	63.5								
120 months		34.6									

Gross ultimate claims	**2002 ae %**	**2003 %**	**2004 %**	**2005 %**	**2006 %**	**2007 %**	**2008 %**	**2009 %**	**2010 %**	**2011 %**	**2012 %**	
Reinsurance												
12 months		58.7	87.9	196.9	52.4	59.6	60.1	60.8	68.2	76.9	62.9	
24 months		34.1	82.0	188.4	25.2	26.3	51.4	48.5	151.9	77.5		
36 months		28.4	76.8	186.7	24.9	21.8	42.7	40.5	140.3			
48 months		28.6	74.3	179.8	23.3	20.0	39.5	40.0				
60 months		25.5	72.4	176.1	21.4	19.1	39.0					
72 months		25.5	71.4	173.5	21.1	19.0						
84 months		24.4	70.3	172.3	21.3							
96 months		23.6	69.3	172.0								
108 months		23.7	68.9									
120 months		23.2										
Specialty lines												
12 months		72.9	72.3	72.1	72.7	72.8	72.2	72.8	74.0	75.7	74.1	
24 months		70.2	71.4	72.1	72.7	72.5	72.2	72.8	74.0	75.7		
36 months		68.8	67.7	69.9	72.7	72.5	72.0	71.9	72.9			
48 months		60.1	64.5	66.3	72.6	72.3	72.0	71.4				
60 months		53.2	59.4	62.8	70.9	72.3	71.6					
72 months		52.4	58.3	56.1	65.9	72.3						
84 months		50.5	56.5	52.4	61.9							
96 months		47.2	54.6	49.1								
108 months		46.2	52.7									
120 months		44.6										
Total												
12 months		63.0	69.3	90.6	63.0	63.6	68.7	62.7	64.8	67.0	64.3	
24 months		52.6	69.2	87.9	53.2	59.3	67.6	57.5	73.1	62.7		
36 months		49.4	66.6	84.3	50.9	58.2	66.2	53.8	69.1			
48 months		44.9	63.5	82.6	52.5	58.5	67.4	52.2				
60 months		41.5	61.0	79.7	52.1	59.6	65.6					
72 months		40.9	59.3	76.0	49.4	61.4						
84 months		40.1	57.9	74.1	47.4							
96 months		38.4	57.1	72.1								
108 months		37.8	56.2									
120 months		37.1										
Total ultimate losses ($m)	1,818.7	445.4	761.5	1,099.6	792.8	1,101.5	1,236.8	1,095.1	1,399.5	1,219.7	1,322.8	12,293.4

Less paid claims ($m)	(1,731.6)	(390.7)	(656.9)	(979.5)	(570.0)	(751.8)	(784.9)	(553.5)	(622.3)	(249.5)	(37.3)	(7,328.0)
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	-	(48.6)	(563.0)	(611.6)
Gross claims liabilities (100% level) ($m)	**87.1**	**54.7**	**104.6**	**120.1**	**222.8**	**349.7**	**451.9**	**541.6**	**777.2**	**921.6**	**722.5**	**4,353.8**
Less unaligned share ($m)	(16.5)	(10.4)	(19.9)	(22.8)	(42.3)	(66.4)	(85.9)	(102.1)	(131.6)	(156.0)	(107.7)	(761.6)
Gross claims liabilities, group share ($m)	**70.6**	**44.3**	**84.7**	**97.3**	**180.5**	**283.3**	**366.0**	**439.5**	**645.6**	**765.6**	**614.8**	**3,592.2**

Net ultimate claims	**2002 ae %**	**2003 %**	**2004 %**	**2005 %**	**2006 %**	**2007 %**	**2008 %**	**2009 %**	**2010 %**	**2011 %**	**2012 %**
Life, accident & health											
12 months								51.7	51.5	49.0	51.1
24 months								50.4	52.0	48.0	
36 months								44.5	51.8		
48 months								44.9			
60 months											
72 months											
84 months											
96 months											
108 months											
120 months											
Marine											
12 months		55.4	57.9	55.5	54.0	55.1	61.3	54.7	52.3	56.0	55.4
24 months		44.7	53.0	49.1	42.1	56.5	57.0	48.5	49.4	48.1	
36 months		40.1	48.6	42.9	33.0	49.5	50.8	39.8	44.7		
48 months		39.1	47.8	39.7	31.5	46.7	47.7	36.2			
60 months		39.0	46.6	39.2	31.1	47.5	47.3				
72 months		39.2	44.3	38.2	29.3	47.7					
84 months		38.0	43.9	36.7	29.1						
96 months		37.6	43.2	36.3							
108 months		37.4	43.2								
120 months		37.2									
Political risks & contingency											
12 months		56.7	64.2	63.6	56.2	55.4	55.9	58.8	57.3	55.0	59.4
24 months		37.4	58.2	46.7	40.4	39.6	75.1	35.1	37.8	37.4	
36 months		34.8	54.2	36.1	37.2	55.1	75.3	32.8	30.4		
48 months		32.9	41.1	30.2	47.0	53.8	79.5	28.2			
60 months		34.9	40.8	24.4	41.2	52.1	68.4				
72 months		27.2	36.3	23.3	39.7	48.9					
84 months		25.5	26.2	23.2	39.7						
96 months		22.5	25.4	15.3							
108 months		22.4	24.4								
120 months		22.0									
Property											
12 months		48.8	59.7	65.0	61.4	61.1	67.3	53.7	59.0	60.5	58.8
24 months		41.7	61.0	62.1	49.4	59.7	67.3	48.8	66.3	58.0	
36 months		39.3	60.4	58.5	47.9	58.9	65.1	45.4	66.7		
48 months		38.7	58.7	61.2	51.6	59.5	64.0	43.1			
60 months		38.3	58.4	61.8	50.8	62.3	63.0				

72 months	38.3	57.6	60.0	50.8	62.7
84 months	39.8	57.5	59.1	50.4	
96 months	39.7	57.5	59.1		
108 months	39.4	57.8			
120 months	39.3				

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	
Reinsurance												
12 months		60.2	88.6	152.8	54.3	55.3	67.3	55.6	76.9	86.3	67.1	
24 months		39.3	85.8	132.5	36.7	30.3	57.0	52.5	137.3	87.7		
36 months		33.8	82.7	127.8	34.7	25.2	47.9	46.6	131.4			
48 months		34.5	76.5	118.2	32.5	22.8	45.9	46.0				
60 months		31.6	73.3	111.9	31.0	22.2	45.3					
72 months		31.6	71.7	110.7	31.0	22.1						
84 months		30.2	71.0	105.4	31.4							
96 months		29.3	69.7	104.9								
108 months		29.3	69.9									
120 months		29.3										
Specialty lines												
12 months		68.8	69.2	69.3	68.7	69.7	70.2	69.9	71.4	72.8	71.4	
24 months		67.3	68.6	69.3	68.6	68.7	70.2	69.8	71.3	72.8		
36 months		66.0	65.8	67.5	68.6	68.8	70.1	69.2	70.6			
48 months		57.8	62.2	63.8	68.6	67.4	68.7	66.1				
60 months		52.8	57.0	58.8	63.8	67.3	68.2					
72 months		50.8	53.6	53.8	57.7	67.3						
84 months		49.0	51.1	50.3	54.2							
96 months		45.2	48.8	47.9								
108 months		45.0	47.5									
120 months		43.3										
Total												
12 months		60.2	65.6	73.1	62.2	63.1	66.3	60.4	64.5	66.5	63.7	
24 months		53.0	65.4	68.9	54.5	59.3	66.8	56.9	70.2	63.3		
36 months		50.6	62.8	65.1	51.8	58.7	64.3	53.5	67.9			
48 months		46.5	59.4	62.3	52.5	57.6	63.2	50.8				
60 months		43.8	56.4	59.2	50.2	58.2	61.7					
72 months		42.7	54.0	56.4	47.2	58.0						
84 months		41.9	52.2	53.9	45.7							
96 months		39.9	50.9	52.2								
108 months		39.7	50.3									
120 months		38.9										
Total ultimate losses ($m)	990.2	374.4	569.8	618.2	622.1	908.0	964.5	830.6	1,146.4	1,022.1	1,058.2	9,104.5
Less paid claims ($m)	(936.9)	(339.6)	(485.0)	(526.8)	(466.1)	(646.3)	(673.1)	(478.8)	(550.6)	(238.9)	(34.8)	(5,376.9)
Less unearned portion of ultimate losses ($m)												
Net claims liabilities (100% level) ($m)	**53.3**	**34.8**	**84.8**	**91.4**	**156.0**	**261.7**	**291.4**	**351.8**	**595.8**	**738.7**	**528.1**	**3,187.8**
Less unaligned share ($m)	(10.1)	(6.6)	(16.1)	(17.4)	(29.6)	(50.6)	(56.4)	(67.8)	(98.1)	(126.7)	(82.3)	(561.7)
Net claims liabilities, group share ($m)	**43.2**	**28.2**	**68.7**	**74.0**	**126.4**	**211.1**	**235.0**	**284.0**	**497.7**	**612.0**	**445.8**	**2,626.1**

Analysis of movements in loss development tables
We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2012 for each underwriting year.

Generally, the claims experience has been in line with expectation. We are cautiously reserved for natural catastrophes and the claims frequency on our specialty lines classes has been stable to reducing.

Life, accident & health
The 2010 and 2011 underwriting years have developed in line with team's historical experience.

Marine
With the exception of 2007 where there was an immaterial strengthening, all other years have continued to develop positively. Despite the increased piracy affecting 2010 the prevailing experience has been muted, supporting profitable loss ratios.

Political risks & contingency
In 2009 we reported that the ultimate claims on the 2006, 2007 and 2008 underwriting years had increased as a result of the deterioration in the claims environment of our political class, particularly from financial crisis exposed contracts. During 2012, those claim estimates have continued to improve as have those established in respect of exposure to the uprising in Libya.

The 2009, 2010 and 2011 underwriting years show a reversion to more benign claims experience. Claim frequency remains favourable.

Property
The 2009 underwriting year continued to develop favourably while on the 2007 underwriting year the predominantly gross strengthening relates to claims on our engineering business where policies cover projects that span several years. The 2012 underwriting year loss ratio includes our superstorm Sandy reserve.

Reinsurance
Superstorm Sandy reserves were set up in the 2012 underwriting year. Established catastrophe event reserves have proven robust in 2012.

The 2010 Chilean earthquake and 2011 Japanese earthquake reserves have been reduced during the year as more certainty has been gained; the latter was mainly a gross reduction. Both benefited the 2010 underwriting year.

Specialty lines
The trend of consistent releases on the 2003, 2004, 2005 and 2006 underwriting years has continued. The incurred claims development remains exceptional on these years.

During 2012 the team maintained its vigilance for the potential impact of the recession-related claims experience in the 2007, 2008, 2009 and 2010 underwriting years. The nature of the claims development in these years coupled with our consistent reserving philosophy has resulted in us maintaining our ultimate loss ratios on 2007 and 2008, while showing modest releases on 2009 and 2010.

Our 2010 and 2011 underwriting year loss ratios opened slightly higher than in previous years to reflect the rating and claims environment and allow consistency to be maintained in our reserving philosophy. Our 2012 underwriting year opened lower than 2011 reflecting the growing benefit of our breach response product to the business mix.

Claim releases
The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by department and period.

Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occurs. Therefore margins have been released on those classes affected by superstorm Sandy.

The net of reinsurance estimates of ultimate claims costs on the 2011 and prior underwriting years has improved by $126.0m during 2012 (2011: $186.5m). This movement has arisen from a combination of better than expected claims experience coupled with small changes to the many assumptions reacting to the observed experience and anticipating any changes as a result of the new business written.

The movements shown on 2009 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2012	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Tota $m
Current year	46.9	144.6	44.8	146.6	94.3	427.2	904.4
Prior year							
- 2009 underwriting year and earlier	-	(9.4)	(22.4)	(6.7)	(4.8)	(47.8)	(91.1)
- 2010 underwriting year	-	(10.3)	(4.3)	5.4	(3.8)	(3.7)	(16.7)

- 2011 underwriting year	(0.5)	(8.0)	(6.4)	(4.9)	1.6	-	(18.2)
	(0.5)	(27.7)	(33.1)	(6.2)	(7.0)	(51.5)	(126.0)
Net insurance claims	**46.4**	**116.9**	**11.7**	**140.4**	**87.3**	**375.7**	**778.4**

2011	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	40.1	122.5	57.5	199.2	209.7	408.0	1,037.0
Prior year							
- 2008 underwriting year and earlier	0.7	(11.4)	(10.2)	4.6	(10.1)	(61.8)	(88.2)
- 2009 underwriting year	(3.9)	(24.6)	(2.8)	(15.9)	(10.0)	-	(57.2)
- 2010 underwriting year	(1.3)	(3.9)	(9.1)	(8.9)	(17.9)	-	(41.1)
	(4.5)	(39.9)	(22.1)	(20.2)	(38.0)	(61.8)	(186.5)
Net insurance claims	**35.6**	**82.6**	**35.4**	**179.0**	**171.7**	**346.2**	**850.5**

12 Subsequent events
There are no events that are material to the operations of the group that have occurred since the reporting date.

Glossary

Aggregates/aggregations
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss.
Aggregate excess of loss
The reinsurer indemnifies an insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount.
A.M. Best
A.M. Best is a worldwide insurance-rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations, following a rigorous quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile.
Binding authority
A contracted agreement between a managing agent and a coverholder under which the coverholder is authorised to enter into contracts of insurance for the account of the members of the syndicate concerned, subject to specified terms and conditions.
Capacity
This is the maximum amount of premiums that can be accepted by a syndicate. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general.
Capital growth assets
These are assets that do not pay a regular income and target an increase in value over the long-term. They will typically have a higher risk and volatility than that of the core portfolio. Currently these are the hedge fund assets.
Catastrophe reinsurance
A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events.
Claims
Demand by an insured for indemnity under an insurance contract.
Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding
the impact of foreign exchange on non-monetary items.
Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange on non-monetary items.
Coverholder/managing general agent
A firm either in the United Kingdom or overseas authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance in the name of the members of the syndicate concerned, subject to certain written terms and conditions. A Lloyd's broker can act as a coverholder.
Deferred acquisition costs (DAC)
Costs incurred for the acquisition or the renewal of insurance policies (eg brokerage, premium levy and staff related costs) which are capitalised and amortised over the term of the contracts.
Earnings per share (EPS) - basic/diluted

Ratio, in pence and cents, calculated by dividing the consolidated profit after tax by the weighted average number
of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for all dilutive potential ordinary shares such as share options granted to employees.
Excess per risk reinsurance
A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company against the amount of loss in excess of a specified retention with respect to each risk involved in each loss.
Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.
Facultative reinsurance
A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under
a reinsurance treaty.
Gross premiums written
Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries.
Hard market
An insurance market where prevalent prices are high, with restrictive terms and conditions offered by insurers.
Horizontal limits
Reinsurance coverage limits for multiple events.
Incurred but not reported (IBNR)
These are anticipated or likely claims that may result from an insured event although no claims have been reported so far.
International accounting standards board (IASB)
An international panel of accounting experts responsible for developing IAS/IFRS.
International accounting standards (IAS)/International financial reporting standards (IFRS)
Standards formulated by the IASB with the intention of achieving internationally comparable financial statements. Since 2002, the standards adopted by the IASB have been referred to as International Financial Reporting Standards (IFRS). Until existing standards are renamed, they continue to be referred to as International Accounting Standards (IAS).
Lead underwriter
The underwriter of a syndicate who is responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one syndicate and who generally has primary responsibility for handling any claims arising
under such a contract.
Line
The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.
Managing agent
A company that is permitted by Lloyd's to manage the underwriting of a syndicate.
Managing general agent (MGA)
An insurance intermediary acting as an agent on behalf of an insurer.
Medium-tail
A type of insurance where the claims may be made a few years after the period of insurance has expired.
Net assets per share
Ratio, in pence and cents, calculated by dividing the net assets (total equity) by the number of shares issued.
Net premiums written
Net premiums written is equal to gross premiums written less outward reinsurance premiums written.
Provision for outstanding claims
Provision for claims that have already been incurred at the reporting date but have either not yet been reported or not yet been fully settled.
Rate
The premium expressed as a percentage of the sum insured or limit of indemnity.
Reinsurance special purpose syndicate
A special purpose syndicate (SPS) created to operate as a reinsurance "sidecar" to Beazley's treaty account, capitalising on Beazley's position in the treaty reinsurance market.
Reinsurance to close (RITC)
A reinsurance which closes a year of account by transferring the responsibility for discharging all the liabilities that attach to that year of account (and any year of account closed into that year) plus the right to buy any income due to the closing year of account into an open year of account in return for a premium.
Retention limits Limits imposed upon underwriters for retention of exposures by the group after the application of reinsurance programmes.
Return on equity (ROE)
Ratio, in percentage terms calculated by dividing the consolidated profit after tax by the average daily total equity.
Retrocessional reinsurance
The reinsurance of the reinsurance account. It serves to 'lay-off' risk.
Risk
This term may variously refer to:
a) the possibility of some event occurring which causes injury or loss;
b) the subject matter of an insurance or reinsurance contract; or
c) an insured peril.
Sidecar special purpose syndicate
Specialty reinsurance company designed to provide additional capacity to a specific insurance company. They operate by purchasing a portion or all of a group of insurance policies, typically cat exposures. They

have become quite prominent in the aftermath of Hurricane Katrina as a vehicle to add risk-bearing capacity, and for investors to participate in the potential profits resulting from sharp price increases.

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

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

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

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

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

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

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