REG - Beazley PLC -Results for year ended 31st December 2011

Released : 07 Feb 2012 07:00

RNS Number : 9101W
Beazley PLC
07 February 2012

Press Release

Beazley delivers a creditable performance

Dublin, 7 February 2012

Beazley plc results for year ended 31st December 2011

- Profit before income tax of $62.7m (2010: $250.8m)
- Return on equity of 6% (2010: 19%)
- Gross written premiums decreased by 2% to $1,712.5m
- Combined ratio of 99% (2010: 88%)
- Rate increase on renewal portfolio of 1% (2010: decrease of 2%)
- Investment income of $39.3m, or 1% (2010: $37.5m)
- Second interim dividend of 5.4p, taking total dividends for the year to 7.9p (2010: 7.5p dividends plus special dividend of 2.5p)

	Year ended 31 December 2011	Year ended 31 December 2010	% movement
Gross written premiums ($m)	**1,712.5**	1,741.6	(2%)
Net written premiums ($m)	**1,374.0**	1,402.1	(2%)
Profit before income tax ($m)	**62.7**	250.8	(75%)
Earnings per share (pence)	**8.1p**	27.4p	
Net assets per share (pence)	**137.6p**	139.5p	
Net tangible assets per share (pence)	**120.8p**	124.4p	
Dividend per share (pence)	**7.9p**	10.0p*	

*including a 2.5p special dividend

Andrew Horton, Chief Executive Officer, said:
"Beazley delivered an underwriting profit in 2011 - a strong performance in the worst year on record for insured natural catastrophes. The market remains competitive for many lines of business but, overall, we expect profitable growth opportunities to increase in 2012."

For further information, please contact:

Beazley plc
Martin Bride
Tel: +353 (0) 1854 4700

RLM Finsbury
Guy Lamming/Don Hunter
Tel: +44 (020) 7251 3801

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 2011, underwrote gross premiums worldwide of $1,712.5 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 and Chief Executive's review

In a year that severely tested the world's insurers and reinsurers, Beazley delivered a creditable performance, recording a profit before income tax of $62.7m (2010: $250.8m) on gross premiums of $1,712.5m (2010: $1,741.6m). With a combined ratio of 99% (2010: 88%), our underwriting operations remained in profit despite heavy catastrophe claims in Asia, Australasia and the United States.

The board is pleased to announce a second interim dividend of 5.4p per ordinary share. Together with the first interim dividend of 2.5p this takes the total dividends declared in 2011 to 7.9p per ordinary share (2010: first interim dividend of 2.4p, second interim dividend of 5.1p totalling 7.5p plus a special dividend of 2.5p per ordinary share).

The catastrophe losses began with the Queensland floods in Australia and ended, also with floods, in Thailand in November. In between, we incurred claims from the Christchurch, New Zealand earthquake (the second to hit the city in less than six months); the Tohoku earthquake in Japan; and the deadliest succession of tornadoes to hit the US in more than 70 years. The catastrophe loss estimates previously reported in our third quarter interim management statement, excluding flooding in Thailand, have in fact improved slightly. In total, catastrophe events in 2011, including the Thai floods, cost the group an estimated $215m, more than twice the cost for 2010.

At times like this, a well balanced business portfolio shows its worth. Two of our six divisions (property and reinsurance) have significant exposures to natural catastrophes. In 2011, our property and reinsurance teams moved swiftly to meet claims from policyholders that generated combined ratios for their business of 109% and 157% respectively. But the impact of these losses was cushioned by underwriting profits generated by our other divisions, notably specialty lines, our largest division, which recorded a combined ratio of 94%; marine 72%; and life, accident and health 95%. Our political risks and contingency division incurred claims as a result of the civil war in Libya and some event cancellation claims stemming from the Tohoku earthquake but still achieved a 79% combined ratio.

Prudent reserving has been a hallmark of Beazley's approach to business over more than a quarter of a century. In 2011, total prior year reserve releases were $186.5m (2010: $144.6m) of which specialty lines accounted for $61.8m (2010 $56.9m).

In light of the claims experience of the past year, rates are now rising across catastrophe exposed classes of business. The rate increases are smaller than they would have been had the market not been very well capitalised at the beginning of the year. But the change has nevertheless been significant. We accordingly plan to increase our property and reinsurance underwriting in 2012 and, across the group, expect to see premium growth of between 5% and 10%.

Growth in non-catastrophe lines of business will be selective in 2012, in line with our stringent profitability requirements. In the US, we continue to see robust demand for data breach protection policies - a market in which we hold a leading position. We also see opportunities for growth in the healthcare sector. This covers a wide variety of professional liability risks run by medical service providers, including blood and tissue banks, contract research organisations, dialysis clinics, and ground and air ambulances.

Our focus in lines of business in which competition is currently intense, including professional liability for architects and engineers (A&E) and lawyers, and directors and officers insurance, remains on maintaining price discipline while providing excellent service to our clients. We have witnessed numerous new entrants into these markets in recent years, some writing business on a basis that we view as uneconomic, and we expect to see withdrawals occurring as this becomes apparent. The continuing low level of

investment returns means that subsidising underwriting losses with investment returns is not a viable strategy.

Our own investment strategy remains conservative, with 81.5% of our assets held in AA or better securities (with no exposure to those eurozone countries that have recently been the direct subject of solvency concerns). Our investment yield in 2011 remained stable at 1.0% and benefited from the decision taken in 2010 to increase the portfolio duration. Our alternative asset portfolio, comprising 10.3% of our investments, made a small loss in 2011 which compared favourably to the HFRI fund of funds index.

The US remains by far our most important market, accounting for 57% of our gross written premiums in 2011. Of this, $366.2m was underwritten locally by our US underwriters (2010: $393.6m). In March we decided to withdraw from underwriting admitted commercial property business to focus on the development of our non admitted, or surplus lines property business, where we saw stronger profit opportunities. We plan to grow our surplus lines property business in 2012 to take advantage of the more attractive rates that now prevail for catastrophe exposed risks.

Outside the US, we made significant investments in the growth of our business in 2011. In April we expanded our presence in the Australian group disability market through the purchase of two managing general agencies, Australian Income Protection and Blue-GUM Special Risks. Combining these businesses with our existing Australian accident and health operation enables us to offer a full product range, including permanent and temporary disability benefits, to superannuation funds, employers and affinity groups.

Continental Europe is another region that we see as offering real growth potential, particularly for our specialty lines division. Our initial focus is on the French market: we are hiring or transferring new underwriters to our Paris office and working to strengthen our local broker relationships. Our focus in France, as elsewhere, is to develop products tailored to local needs, rather than assuming that products developed in the UK or US can simply be exported into markets with very different characteristics.

Delivery against strategic priorities

Our vision is to become, and be recognised as, the highest performing specialist insurer; and we made good progress against this objective in 2011. Our business model was strenuously tested and still delivered positive shareholder returns.

Our strategy focuses on three areas. The first - prudent capital allocation to achieve diversified profitability across the group - was well illustrated in 2011 by our acquisitions in Australia. The performance of our Australian group disability business is uncorrelated with that of our other businesses - even in the Australian market, where we also write event cancellation insurance. The diversification of our underwriting portfolio - across lines of business, geographies, and sizes of risk - has underpinned the consistency of our underwriting performance in recent years.

Our second area of focus is to nurture and enhance our skills base. Since the company was founded in 1986, we have sought to create an environment at Beazley in which talented individuals with entrepreneurial spirit can build successful businesses. One of the most striking examples in the past three years has been our technology, media and business services (TMB) team within our specialty lines division. Under the leadership of Mike Donovan, based in our San Francisco office, this team's premiums have grown from $108.9m in 2010 to $120.8m last year.

The environment in which Beazley underwriters work today is different in character from that of a decade, or even five years, ago. Regulatory demands have grown and a business with underwriters in multiple locations is inevitably more challenging to manage than a business operated entirely from the Beazley box at Lloyd's. Our talent management team under the leadership of Penny Malik therefore focuses not just on attracting and retaining the best underwriting and claims specialists in the market but also on giving them the training and resources they need to realise their potential.

Our third strategic priority is to scale our operations to ensure that, as we grow, we can continue to provide the very high level of service that our brokers and clients have come to expect. Technologies that help us to respond rapidly to broker submissions and adjust claims efficiently are clearly critical in this context, but equally important are strong, trust-based broker relationships. Dan Jones heads our team responsible for broker relations at Beazley and it is a key part of our business.

In 2011 we launched an important initiative that we hope will strengthen broker relationships, not just for Beazley but for the entire Lloyd's market in years to come. The inaugural Andrew Beazley Broker Academy, hosted by Beazley and Hiscox in September, welcomed 21 young US brokers to London where, for a week, they were able to stand in the shoes of Lloyd's underwriters, gaining a detailed understanding of how risks are written and claims are adjusted in the Lloyd's market. The initiative was very well received by the brokers who participated and we are planning to merge it with the existing Lloyd's broker programme - while retaining the Andrew Beazley name - from 2012 onwards.

Our broker relationships go back years in many cases. A newer partnership for Beazley is the one we established in 2010 with British Fencing, which we are sponsoring for five years. This will be an exciting and challenging year for the national team, with the best fencers in the world converging on London for the Olympics. We wish the team luck.

Solvency II
Solvency II is an EU-wide proposal on capital adequacy and risk management for insurers. Throughout 2011 Beazley's dedicated project management team and subject matter experts have continued to build our framework. In particular the Solvency II internal model was built and tested.

Board and executive changes
In 2011 we celebrated the 25th anniversary of the founding of Beazley and it was also the year in which Nick Furlonge, who co-founded the company with Andrew Beazley in 1986, chose to retire from the Beazley board. Nick's contribution to Beazley is inestimable: we are delighted that we continue to benefit from his wisdom and insight through his remaining on the board of Beazley Furlonge Limited, our Lloyd's managing agency. Nick was named "industry achiever of the year" at the Insurance Day awards in December, and the accolade was well deserved.

Andy Pomfret, who joined the Beazley board in 2003, left the board in July to concentrate on his role as chief executive officer of Rathbone Brothers Plc. In addition to his other board responsibilities, Andy had made considerable contributions to the company as chairman of the remuneration committee and as senior independent director, for which we are very grateful. He was succeeded as chairman of the remuneration committee by Padraic O'Connor and as senior independent director by George Blunden.

As previously announced, Jonathan Agnew will step down from the board after the annual general meeting on 27 March, by which time he will have been a non-executive director for ten years and chairman for nearly nine years. During that period the group's written premium has more than trebled and the principal managed syndicates maintained their record of continuous profitability, which goes back to the founding of Beazley and which is now unrivalled in Lloyd's. Jonathan Agnew considers it an honour and a privilege to have been associated with Andrew Beazley and Nick Furlonge, who founded the business, and with all those who have subsequently contributed to its success. The board and senior management at Beazley would like to thank Jonathan for his leadership during a period that has seen the company develop and flourish.

In July we also welcomed Dennis Holt to the Beazley board as a non executive director. Dennis is expected to take up the position of non-executive chairman following the annual general meeting in March 2012, succeeding Jonathan Agnew, who wishes Dennis Holt, Andrew Horton and their colleagues every success in the future.

Additionally, we welcomed two new members of the executive committee in the course of the year: Ian Fantozzi and Penny Malik. Ian was promoted to the executive management team as chief operating officer, succeeding David Marock, who left the company to assume the role of chief executive of Charles Taylor Consulting.

The 805 employees of Beazley have reason to be proud of our achievements in 2011 - achievements recognised at the Insurance Day awards in December, when Beazley was named company of the year.

There can be no guarantee that the tempestuous market conditions we have witnessed in 2011 will not recur - if the future was predictable, insurance would be unnecessary. But we have every confidence that our clients and brokers will continue to find Beazley well prepared to meet their needs.

Jonathan Agnew Andrew Horton
Chairman *Chief executive*

7 February 2012

Financial review

Income statement

	2011 $m	**2010 $m**	**Movement %**
Gross premiums written	1,712.5	1,741.6	(2%)
Net premiums written	1,374.0	1,402.1	(2%)
Net earned premiums	1,385.0	1,405.2	(1%)
Net investment income	39.3	37.5	5%
Other income	28.1	28.1	-

Revenue	1,452.4	1,470.8	(1%)
Net insurance claims	850.5	738.2	15%
Acquisition and administrative expenses	517.3	500.6	3%
One-off foreign exchange gain*	-	(33.7)	-
Foreign exchange loss/(gain)	4.1	(0.9)	-
Expenses	1,371.9	1,204.2	14%
Share of loss of associate	(1.0)	(0.9)	11%
Finance costs	(16.8)	(14.9)	13%
Profit before tax	62.7	250.8	(75%)
Income tax credit/(expense)	3.1	(33.8)	-
Profit after tax	65.8	217.0	(70%)
Claims ratio	62%	52%	-
Expense ratio	37%	36%	-
Combined ratio	99%	88%	-
Rate increase/(reduction)	1%	(2%)	-
Investment return	1.0%	1.0%	-

he $33.7m non-recurring foreign exchange gain in 2010 arose as a result of the decision to more closely match our regulatory capital position in US dollars prior to the change in our functional currency from Sterling to US dollars.

Premiums
Gross premiums written have reduced by 2% in 2011 to $1,712.5m. However, rates on renewal business on average increased by 1% across the portfolio. We have continued to adjust our underwriting appetite in areas where competition is most intense.

The balance of our business has remained broadly unchanged from 2011. We continue to operate a diversified portfolio by type of business and geographical location, and have sought out new opportunities in 2011 to complement our existing books of business. In April 2011 we announced our acquisition of two Australian disability insurance managing general agents: Australian Income Protection and Blue-GUM Special Risks. This acquisition has made a $10.1m contribution to our full year premiums written via our Lloyd's platform and will significantly add to our Australian business and our life, accident and health portfolio. In addition we have set up a life, accident and health business operation in Minneapolis, Minnesota, writing admitted business through our US insurance company, Beazley Insurance Company Inc.

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 2010.

Retention rates*	2011	2010
Life, accident and health	85%	83%
Marine	84%	78%
Political risks and contingency	64%	60%
Property	72%	73%
Reinsurance	90%	93%
Specialty lines	82%	84%
Overall	80%	80%

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

Rating environment
Premium rates charged for renewal business increased by 1% during 2011 across the portfolio (2010: a decrease of 2%). The largest rate changes were seen within our catastrophe-exposed classes; reinsurance (3% increase) and property (3% increase).

Life, accident and health saw a 1% rate increase, whilst political risks and contingency and specialty lines had a 1% decrease and marine was unchanged. 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
Life, Accident & Health	0%	0%	0%	0%	0%	0%	0%	0%	100%	100%	101%
Marine	100%	117%	128%	127%	130%	140%	131%	123%	131%	127%	127%
Political Risk & Contingency	100%	120%	122%	114%	107%	101%	93%	89%	88%	86%	85%
Property	100%	128%	133%	126%	124%	140%	137%	128%	135%	130%	134%
Reinsurance	100%	143%	150%	149%	150%	190%	198%	186%	202%	196%	202%
Specialty Lines	100%	137%	166%	174%	176%	177%	168%	158%	157%	155%	153%
All divisions	100%	132%	145%	146%	147%	155%	149%	140%	144%	141%	142%

*unaudited

Reinsurance purchased

The amount the group spent on reinsurance in 2011 was $338.5m (2010: $339.5m). The slight decrease was due to the group ceasing to underwrite admitted commercial property business in the US and accordingly no purchase of external reinsurance for this business was made. The only significant new reinsurance purchased was the professions' aggregate excess of loss cover which protects the group against an unexpected increase in the frequency of losses across most of the specialty lines business.

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. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio has increased in 2011 to 99% (2010: 88%). This increase was driven by the cost of catastrophes in 2011; nevertheless a combined ratio of below 100% is a notable achievement under these circumstances and demonstrates the value in our diversified operating model in challenging years. 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

2011 saw an unusually large incidence of natural catastrophes resulting in significant market losses. The group was impacted by the catastrophe losses in the first quarter of 2011 in Japan, New Zealand and Australia. Taken together with the US tornadoes in April and May, we reported catastrophe losses of $183m in the first half of 2011.

Political unrest in Libya led to losses in the first half in political risks and contingency. Despite this the division recorded a combined ratio of 79%, which was achieved following the first recoveries on the 2008 political losses. The second half of the year saw loss activity continue with hurricane Irene and flooding in Thailand. We incurred minor losses as a result of hurricane Irene and we estimate the cost of Thailand to be $42m. Thanks to a $10m improvement in the estimate for the previously reported losses, this brings the total for these catastrophe events to $215m in 2011.

These losses have affected our reinsurance and property divisions and, to a lesser extent, the political risks and contingency division.

Our investments in our claims infrastructure will enable us to work closely with our clients and insureds to ensure claims are handled in an efficient and timely manner and to enable affected communities to start to rebuild.

Losses from 2010, including the earthquakes in Chile and New Zealand have developed well and contributed positively to prior year reserve releases during 2011.

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 our reserve strength across the portfolio at 7.4% (2010: 7.9%).

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 2011 we were able to make the following prior year reserve adjustments across divisions, with the overall net impact being an increased release to the group.

	2011 $m	2010 $m
Life, accident and health	4.5	(1.3)
Marine	39.9	30.7
Political risks and contingency	22.1	18.8
Property	20.2	17.4
Reinsurance	38.0	22.1
Specialty lines	61.8	56.9
Total	**186.5**	**144.6**
Releases as a percentage of net earned premium	**13.5%**	**10.3%**

Reserve releases increased slightly on specialty lines, reflecting the continuing satisfactory development of the significant volumes of business underwritten over the last ten years. The releases in 2011 came mainly from the 2003 through 2006 underwriting years, reinforcing that they are exceptionally profitable.

The political risks and contingency reserve releases continued, with the 2010 underwriting year in particular developing well. Marine reserve releases rose significantly, with the relatively benign 2009 underwriting year dominating.

The reinsurance and property releases increased with favourable development of past catastrophe events and the utilisation of earned catastrophe reserves offsetting the cost of the events of 2011.

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased to $517.3m from $500.6m in 2010. The breakdown of these costs is shown below:

	2011 $m	2010 $m
Brokerage costs	299.3	292.9
Other acquisition costs	91.4	88.5
Total acquisition costs	**390.7**	**381.4**
Administrative expenses	126.6	119.2
Total acquisition costs and administrative expenses	**517.3**	**500.6**

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 guidelines.

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 IT costs, facilities costs, Lloyd's central costs and other support costs. These increased in 2011, the main reason being that a large proportion of the group's expenses are in sterling and on average sterling was stronger against the US dollar in 2011 compared to 2010.

Investment performance

Investment income for the year ended 31 December 2011 was $39.3m, or an annualised return of 1.0%, compared with $37.5m or 1.0% over the same period in 2010.

Investment conditions continued to be difficult over the course of the year. Financial markets experienced elevated levels of volatility as the effects of global overleveraging continued to manifest themselves via the European sovereign debt crisis. This issue, coupled with the relatively lacklustre levels of global growth, contributed to interest rate levels falling further from already record low levels - providing some boost to short-term returns, but decreasing the outlook for future returns.

In this environment the investment strategy focused on containing potential downside, whilst working to target absolute returns above short-term treasury bills. We have paid particular attention to avoiding risks arising from the eurozone crisis, primarily those arising from peripheral sovereign debt as well as from the overall banking sector. Our eurozone sovereign bond exposures are restricted to Germany, France, Austria, Belgium, Finland, Luxembourg and the Netherlands and other than a small number of holdings in strategic banks in the aformentioned countries, we do not have bond exposure to eurozone banks.

The strategy continues to be implemented together with Falcon Money Management Limited, our associated company, and is unchanged from last year. Our core portfolio, which amounted to 89.7% of fixed income investments, continues to be primarily allocated to core sovereign, supranational and agency debt whilst retaining elevated levels of cash. We have marginally increased our allocations to US non-financial corporate and asset-backed credits to take advantage of wider spreads in the latter part of the year. Duration of the portfolio as at the year end was 1.3 years (2010: 12 months) with a yield to maturity of 0.8% (2010: 0.7%). Our decision late in 2010 to increase and maintain duration worked well as interest rates fell further during 2011. The investment committee does expect to further extend the duration of assets to more closely match liabilities in the future. The balance of our investments remains invested in a diversified portfolio of capital growth assets with a focus on delivering absolute investment returns.

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

	31 Dec 2011		31 Dec 2010	
	$m	%	$m	%
Cash and cash equivalents	650	16.2	745	19.4
Government, agency and supranational	2,004	50.0	1,731	45.0
AAA	493	12.3	646	16.9
AA+ to AA-	121	3.0	157	4.1
A+ to A-	237	6.0	113	2.9
BBB+ to BBB-	86	2.1	17	0.4
Derivative financial assets	5	0.1	-	-
Core portfolio	3,596	89.7	3,409	88.7
Capital growth assets	411	10.3	433	11.3
Total	4,007	100.0	3,842	100.0

Comparison of return by major asset class:

	31 Dec 2011		31 Dec 2010	
	$m	%	$m	%
Core portfolio	45.1	1.3	17.0	0.5
Capital growth assets	(5.8)	(1.4)	20.5	5.8
Overall return	39.3	1.0	37.5	1.0

The funds managed by the Beazley group have grown by 4% in 2011, with financial assets of $4,006.9m at the end of the year (2010: $3,842.3m).

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 2011, the UK corporation tax rate was reduced from 27% to 25%. 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 tax charge to create an effective tax rate of (5%) for the year.

Balance Sheet Management

Summary statement of financial position

	2011 $m	2010 $m	Movement %
Intangible assets	130.7	117.0	12%
Reinsurance assets	1,197.9	1,034.9	16%
Insurance receivables	558.7	527.1	6%
Other assets	224.5	253.0	(11%)

Financial assets and cash and cash equivalents	4,006.9	3,842.3	4%
Total assets	**6,118.7**	**5,774.3**	**6%**
Insurance liabilities	4,334.6	4,046.8	7%
Financial liabilities	266.9	268.2	-
Other liabilities	446.2	376.4	19%
Total liabilities	**5,047.7**	**4,691.4**	**8%**
Net assets	**1,071.0**	**1,082.9**	**(1%)**
Net assets per share (cents)	**211.7c**	**214.6c**	**(1%)**
Net tangible assets per share (cents)	**185.9c**	**191.4c**	**(3%)**
Net assets per share (pence)	**137.6p**	**139.5p**	**(1%)**
Net tangible assets per share (pence)	**120.8p**	**124.4p**	**(3%)**
Number of shares*	**505.9m**	**504.6m**	**-**

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

Intangible assets
Intangible assets consist of goodwill on acquisitions of $72.3m and renewal rights of $16.3m, purchased syndicate capacity of $10.8m, US admitted licences of $9.3m and capitalised expenditure on IT projects of $22.0m. The increase in intangibles is primarily due to the acquisition of AIP in Australia for $20.6m, this included deferred consideration. We also acquired additional syndicate capacity of $1.4m, taking the split of business between syndicates 2623 and 623 to 82%:18% for 2012. This was offset by a decrease of $8.6m as we disposed of a business. As part of the sale agreement we secured the renewal rights for this business for the next five years, accordingly we have capitalised this asset as renewal rights within intangible assets.

Reinsurance assets
Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $995.7m, and the unearned reinsurance premiums reserve of $202.2m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $252.4m and an actuarial estimate of recoveries on claims that have not yet been reported of $743.3m. 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 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 2011 we had provided $15.7m (2010: $17.3m) in respect of reinsurance recoveries.

Insurance receivables
Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2011 was $558.7m, an increase of 6% over 2010 ($527.1m). 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
The largest items included comprise:

- Deferred acquisition costs of $159.7m;
- Deferred tax assets available for use against future taxes payable of $12.5m; and
- Profit commissions receivable from syndicate 623 of $10.1m.

Insurance liabilities
Insurance liabilities of $4,334.6m consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our unearned premiums reserve has reduced by 2% to $808.4m. 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 9% to $3,526.2m.

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

- In 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that is payable in 2026 and callable in 2016. The initial interest rate payable is 7.25% and the current carrying value of this debt is $246.8m; and
- 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.

In July 2011 we renewed and extended our existing syndicated short-term banking facility led by Lloyds Banking Group Plc. The facility provides potential borrowings up to $225m. The new agreement is based on a commitment fee of 0.7% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2014, whilst letters of credit issued under the facility can be used to provide support for the 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).

Further capital requirements come from rating agencies on a groupwide basis and for Beazley Insurance Company Inc. and the Lloyd's syndicates on a standalone basis. In both cases we aim to manage our capital to obtain a financial 'A' rating from the rating agencies for these entities.

Beazley holds a level of capital over and above its regulatory requirements and targets a level of surplus capital that would enable it to take advantage of new underwriting opportunities such as the acquisition of insurance companies or managing general agents (MGAs) whose strategic goals are aligned with our own.

The group actively seeks to manage its capital base to target capital levels. Our preferred use of capital is to deploy it on opportunities to underwrite profitably. However there may be times in the cycle when the company will generate excess capital and not have the opportunity to deploy it. If such a point were reached the board would consider returning capital to shareholders.

In 2011 Beazley acquired 0.7m of its own shares. These were acquired at an average price of 117.4p and the cost to the group was $1.2m.

Our funding comes from a mixture of our own equity of $1,071.0m alongside £150m of tier 2 subordinated debt and $18m subordinated long-term debt and an undrawn banking facility of $225m mentioned above. This facility was renewed in July 2011 to cover the 2012 and 2013 underwriting years and converted to a $225m facility. Prior to this date the facility was $150m and has been disclosed at a USD rate of 0.65 (31 December 2010 spot rate) in the table below for comparative purposes.

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

	2011 $m	**2010 $m**
Sources of funds		
Shareholders' funds	1,071.0	1,082.9
Tier 2 subordinated debt	231.0	230.8
Long-term subordinated debt	18.0	18.0
	1,320.0	1,331.7
Uses of funds		
Lloyd's underwriting	742.9	776.9
Capital for US insurance company	107.7	107.7
	850.6	884.6
Surplus	**469.4**	**447.1**
Unavailable surplus*	(129.5)	(80.2)
Fixed and intangible assets	(137.8)	(126.6)

Available surplus	**202.1**	**240.3**
Unutilised banking facility	**225.0**	**150.0**

* 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.

In order to determine the ICA, 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 ICA process is embedded so that the teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk reward profile of the business and allows teams to focus on strategies that improve return on capital.

The decrease in our funds at Lloyd's from £505.0m to £482.9m in spite of the broadly unchanged level of premium reflects the changes in our reinsurance programmes (particularly the professions programme) and the increased duration on our bond portfolio. These numbers are presented in the table on the previous page in US dollars, being $742.9m and $776.9m for 2011 and 2010 respectively, which have been translated at the spot exchange rate at reporting dates.

Solvency II

Solvency II is a proposed EU-wide legislation on capital adequacy and risk management for all insurers. The central elements of Solvency II are:

- Pillar 1: Demonstrating adequate financial resources - quantification
- Pillar 2: Demonstrating an adequate system of governance - risk assessment
- Pillar 3: Public disclosure and regulatory reporting requirements.

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.

Beazley's dedicated project management team and subject matter experts have continued throughout 2011 to build the framework required to make Beazley Solvency II compliant. The Solvency II internal model, which calculates our solvency capital requirements based on Beazley's risk profile in line with the new principles, was built and tested. The internal model has incorporated new design characteristics which increase the level of sophistication and granularity. The Solvency II Final Application Pack for the syndicates was submitted to Lloyd's on 16 December 2011, containing our estimated capital requirements under the new regime, as well as detailed information on the status of the programme and the activities remaining to be completed in order to reach the full Solvency II standard. The team also completed a comprehensive training programme tailored to educate all our staff on their specific knowledge requirements as well as what business as usual will look like under Solvency II.

Our objective for 2012 is to complete our outstanding activities in line with the Lloyd's plan and to embed the model and the changes into the business. This will include going through a review process with the FSA in relation to the Lloyd's application, and with the Central Bank of Ireland to achieve Beazley Re model approval. We will also continue to take advantage of the benefits delivered by the programme, such as better management information and strengthened decision making.

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 2011

	Notes	2011 $m	2010 $m
Gross premiums written	2	1,712.5	1,741.6
Written premiums ceded to reinsurers		(338.5)	(339.5)
Net premiums written	**2**	**1,374.0**	**1,402.1**
Change in gross provision for unearned premiums		20.6	38.4
Reinsurer's share of change in the provision for unearned premiums		(9.6)	(35.3)
Change in net provision for unearned premiums		11.0	3.1
Net earned premiums	**2**	**1,385.0**	**1,405.2**
Net investment income	3	39.3	37.5
Other income	4	28.1	28.1
		67.4	65.6
Revenue		**1,452.4**	**1,470.8**
Insurance claims		1,168.9	860.6
Insurance claims recoverable from reinsurers		(318.4)	(122.4)
Net insurance claims	**2**	**850.5**	**738.2**
Expenses for the acquisition of insurance contracts	2	390.7	381.4
Administrative expenses	2	126.6	119.2
Foreign exchange(gain)/ loss	2	4.1	(34.6)
Operating expenses		**521.4**	**466.0**
Expenses	**2**	**1,371.9**	**1,204.2**
Share of loss of associate	**2**	(1.0)	(0.9)
Results of operating activities		**79.5**	**265.7**
Finance costs	7	(16.8)	(14.9)
Profit before income tax		**62.7**	**250.8**
Income tax expense	8	3.1	(33.8)
Profit for the year attributable to equity shareholders		**65.8**	**217.0**
Earnings per share (cents per share):			
Basic	9	13.0	42.1
Diluted	9	12.4	40.2
Earnings per share (pence per share):			
Basic	9	8.1	27.4
Diluted	9	7.7	26.1

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

Group	31 December 2011	31 December 2010

	$m	$m
Profit for the year attributable to equity shareholders	65.8	217.0
Other comprehensive income		
Change in net investment hedge	-	(5.4)
Foreign exchange translation differences	2.5	12.6
Reversal of exceptional foreign exchange gain	-	(33.7)
Foreign exchange (loss)/ gain arising on change in presentational currency	-	(22.0)
Total other comprehensive income	2.5	(48.5)
Total comprehensive income recognised	**68.3**	**168.5**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

Company	31 December 2011 $m	31 December 2010 $m
Profit for the year attributable to equity shareholders	76.2	59.6
Other comprehensive income	-	
Foreign exchange translation differences	-	(44.3)
Total other comprehensive income	- **-**	(44.3)
Total comprehensive income recognised	**76.2**	**15.3**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

Group	**Notes**	**Share capital $m**	**Share premium $m**	**Foreign exchange reserve $m**	**Other reserves $m**	**Retained earnings $m**	**Total $m**
Balance at 1 January 2010		**42.6**	**0.5**	**(42.5)**	**(25.9)**	**1,021.2**	**995.9**
Total comprehensive income recognised		-	-	(48.5)	-	217.0	168.5
Dividends paid	10	-	-	-	-	(55.5)	(55.5)
Issue of shares		0.1	0.2	-	-	-	0.3
Equity settled share based payments		-	-	-	9.1	-	9.1
Acquisition of own shares in trust		-	-	-	(6.5)	-	(6.5)
Purchase of treasury shares		-	-	-	(28.9)	-	(28.9)
Balance at 31 December 2010		**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	10	-	-	-	-	(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**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

Company	**Notes**	**Share capital $m**	**Share premium $m**	**Foreign exchange reserve $m**	**Other reserves $m**	**Retained earnings $m**	**Total $m**
Balance at 1 January 2010		**42.6**	**0.5**	**8.4**	**(35.1)**	**777.8**	**794.2**
Total comprehensive income recognised		-	-	(44.3)	-	59.6	15.3

Dividends paid	10	-	-	-	-	(55.5)	(55.5)
Issue of shares		0.1	0.2	-	-	-	0.3
Equity settled share based payments		-	-	-	9.1	-	9.1
Acquisition of own shares in trust		-	-	-	(6.5)	-	(6.5)
Purchase of treasury shares		-	-	-	(28.9)	-	(28.9)
Balance at 31 December 2010		**42.7**	**0.7**	**(35.9)**	**(61.4)**	**781.9**	**728.0**
Total comprehensive income recognised		-	-	-	-	76.2	76.2
Dividends paid	10	-	-	-	-	(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**

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	2011		**2010**	
	Group $m	**Company $m**	**Group* $m**	**Company $m**
Assets				
Intangible assets	130.7	-	117.0	-
Plant and equipment	7.1	1.4	9.6	1.7
Investment in subsidiaries	-	747.2	-	747.2
Investment in associates	8.9	1.4	6.5	1.4
Deferred acquisition costs	159.7	-	164.0	-
Deferred tax asset	12.5	-	9.5	-
Retirement benefit asset	4.6	-	3.1	-
Current income tax asset	9.8	-	26.4	-
Reinsurance assets	1,197.9	-	1,034.9	-
Financial investments*	3,356.8	-	3,097.3	-
Insurance receivables	558.7	-	527.1	-
Other receivables	21.9	-	33.9	0.5
Cash and cash equivalents*	650.1	2.5	745.0	4.0
Total assets	**6,118.7**	**752.5**	**5,774.3**	**754.8**
Equity				
Share capital	42.8	42.8	42.7	42.7
Share premium	1.1	1.1	0.7	0.7
Foreign currency translation reserve	(88.5)	(35.9)	(91.0)	(35.9)
Other reserves	(50.1)	(59.3)	(52.2)	(61.4)
Retained earnings	1,165.7	775.3	1,182.7	781.9
Total equity	**1,071.0**	**724.0**	**1,082.9**	**728.0**
Liabilities				
Insurance liabilities	4,334.6	-	4,046.8	-
Borrowings	266.9	-	268.2	-
Other payables	366.0	28.5	285.4	26.8
Deferred tax liabilities	80.2	-	91.0	-
Total liabilities	**5,047.7**	**28.5**	**4,691.4**	**26.8**
Total equity and liabilities	**6,118.7**	**752.5**	**5,774.3**	**754.8**

he composition of group cash and cash equivalents and financial assets have been restated at 31 December 2010.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	**2010**

	Group $m	Company $m	Group* $m	Company $m
Cash flow from operating activities				
Profit before tax	**62.7**	**76.2**	**250.8**	**59.6**
Adjustments for:				
Amortisation of intangibles	11.1	-	3.5	-
Equity settled share based compensation	9.3	9.3	9.1	9.1
Net fair value losses/(gains) on financial assets	(6.3)	-	(6.2)	-
Loss on disposal of plant and equipment	-	-	0.3	-
Loss in associate	1.0	-	0.9	-
Depreciation of plant & equipment	3.8	0.3	4.2	0.4
Increase in insurance and other liabilities	367.1	1.7	19.2	26.8
(Decrease)/increase in insurance, reinsurance and other receivables	(182.6)	0.5	83.8	0.3
Increase in deferred acquisition costs	4.3	-	(8.5)	-
Financial income	(64.8)	-	(60.2)	-
Financial expense	16.8	-	14.9	-
Income tax paid	5.9	-	(26.2)	-
Contribution to pension fund	(1.6)	-	(1.5)	-
Net cash from operating activities	**226.7**	**88.0**	**284.1**	**96.2**
Cash flow from investing activities				
Purchase of plant and equipment	(1.0)	-	(2.0)	(1.6)
Purchase of syndicate capacity	(1.4)	-	(0.2)	-
Acquisition of subsidiary (net of cash acquired)	(3.8)	-	-	-
Sale of business unit	5.0	-	-	-
Expenditure on software development	(11.1)	-	(7.9)	-
Purchase of investments*	(3,912.4)	-	(5,042.7)	-
Proceeds from sale of investments	3,649.2	-	4,799.9	-
Investment in associate	(3.4)	-	(6.0)	-
Interest and dividends received	64.8	-	60.2	-
Net cash used in investing activities	**(214.1)**	**-**	**(198.7)**	**(1.6)**
Cash flow from financing activities				
Proceeds from issue of shares	0.5	0.5	0.3	0.3
Purchase of treasury shares	(1.2)	(1.2)	(28.9)	(28.9)
Acquisition of own shares in trust	(6.0)	(6.0)	(6.5)	(6.5)
Interest paid	(16.8)	-	(14.9)	-
Dividends paid	(82.8)	(82.8)	(55.5)	(55.5)
Net cash used in financing activities	**(106.3)**	**(89.5)**	**(105.5)**	**(90.6)**
Net increase in cash and cash equivalents	**(93.7)**	**(1.5)**	**(20.1)**	**4.0**
Cash and cash equivalents at beginning of year*	745.0	4.0	813.4	-
Effect of exchange rate changes on cash and cash equivalents	(1.2)	-	(48.3)	-
Cash and cash equivalents at end of year*	**650.1**	**2.5**	**745.0**	**4.0**

* The composition of group cash and cash equivalents and the related effects on the purchase of investments have been restated at 31 December 2010.

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 2011 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), 'Financial instruments: Disclosures'. The amendments require an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.

IAS 1 (amended), 'Presentation of financial statements'. IAS 1 is amended to clarify that reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity. IAS 1 is also amended to allow the analysis of the individual other comprehensive income line items by component of equity to be presented in the notes.

IAS 32 (amended), 'Financial instruments: Presentation'. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

IFRIC 19,' Extinguishing financial liabilities with equity instruments'. IFRIC 19 deals with measurement of equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.

IFRIC 14 (amended), 'Prepayment of a minimum funding requirement'. The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement (MFR). The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

In addition, the following is a list of standards that are in issue but are not effective in 2011, and have not yet been adopted in the EU, together with the effective date of application to the group:
IAS 12 Amendment: Deferred tax: Recovery of underlying assets (effective 1 January 2012)
IAS 1 Amendment: Presentation of items of other comprehensive income (effective 1 July 2012)
IFRS 9: Financial Instruments (effective 1 January 2015)
IFRS 10: Consolidated financial statements (effective 1 January 2013)
IFRS 11: Joint arrangements (effective 1 January 2013)
IFRS 12: Disclosure of interests in other entities (effective 1 January 2013)
IFRS 13: Fair Value Measurement (effective 1 January 2013)
IAS 19 Amendment: Defined benefit plans (effective 1 January 2013)
IAS 32 Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2014)
IFRS 7: Amendment: Offsetting financial assets and liabilities (effective 1 January 2013).

The implications of these standards and interpretations are under review.

Basis of presentation

The consolidated 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.

Reclassifications of short-term investments have been made between cash and cash equivalents and financial investments resulting in a restatement of balances in the statement of financial position and statement of cash flows for the comparative period. Full details are set out in note 20 of the financial statements within the 2011 annual report and accounts.

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 2011 is $1,697m (2010: $1,783m) 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.

Previously we reported the IFRS non-monetary items adjustment in respect of unearned premium and deferred acquisition costs in the unallocated column of the segmental analysis as we believed this adjustment was subject to significant volatility and could distort our reported segmental results. This volatility was driven by the majority of our business being US dollar denominated when our functional currency was sterling. Since we changed the functional currency of the group's principal operating entities to the US dollar on 1 April 2010 the volatility and materiality of this adjustment has significantly reduced and as such we now allocate the IFRS non-monetary items adjustment between our business segments. The 2010 segmental analyses have been restated on this basis. The remaining item disclosed in the unallocated column is in respect of a $33.7m non-recurring foreign exchange gain the details of which are disclosed in our 31 December 2010 report and accounts. Accordingly, all subsequent segmental analyses will not contain an unallocated column.

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

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

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

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

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

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

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

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

b) Segment information

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 & 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)

2010	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total reportable segments $m	Unallocated $m	Total $m
Segment results									
Gross premiums written	78.1	261.7	100.9	382.5	174.4	744.0	1,741.6	-	1,741.6
Net premiums written	71.4	235.6	79.9	283.8	134.4	597.0	1,402.1	-	1,402.1
Net earned premiums	65.7	233.9	87.4	285.9	131.6	600.7	1,405.2	-	1,405.2
Net investment income	0.9	3.3	2.2	4.9	2.9	23.3	37.5	-	37.5
Other income	2.0	3.1	1.3	10.3	2.3	9.1	28.1	-	28.1
Revenue	**68.6**	**240.3**	**90.9**	**301.1**	**136.8**	**633.1**	**1,470.8**	**-**	**1,470.8**
Net insurance claims	35.1	89.6	25.1	140.6	82.9	364.9	738.2	-	738.2
Expenses for the acquisition of insurance contracts	19.7	58.9	23.7	106.1	24.7	148.3	381.4	-	381.4
Administrative expenses	9.3	17.2	7.8	31.4	10.6	42.9	119.2	-	119.2
Non-recurring foreign exchange gain	-	-	-	-	-	-	-	(33.7)	(33.7)
Foreign exchange gain	-	-	(0.1)	(0.3)	(0.2)	(0.3)	(0.9)	-	(0.9)
Expenses	**64.1**	**165.7**	**56.5**	**277.8**	**118.0**	**555.8**	**1,237.9**	**(33.7)**	**1,204.2**
Share of loss of associate	-	-	-	-	-	(0.9)	(0.9)	-	(0.9)
Segment result	**4.5**	**74.6**	**34.4**	**23.3**	**18.8**	**76.4**	**232.0**	**33.7**	**265.7**
Finance costs									(14.9)
Profit before income tax									**250.8**

Income tax expense									(33.8)
Profit for the year attributable to equity shareholders									**217.0**
Claims ratio	53%	38%	29%	49%	63%	61%			52%
Expense ratio	44%	33%	36%	48%	27%	32%			36%
Combined ratio	97%	71%	65%	97%	90%	93%			88%
Segment assets and liabilities									
Segment assets	180.6	860.2	692.7	921.7	323.1	2,768.5	5,746.8	27.5	5,774.3
Segment liabilities	(124.8)	(605.6)	(587.3)	(796.9)	(201.8)	(2,375.0)	(4,691.4)	-	(4,691.4)
Net assets	**55.8**	**254.6**	**105.4**	**124.8**	**121.3**	**393.5**	**1,055.4**	**27.5**	**1,082.9**
Additional information									
Capital expenditure	0.2	0.7	0.4	1.9	0.5	6.4	10.1	-	10.1
Amortisation & depreciation	0.1	0.2	0.3	1.8	0.3	5.0	7.7	-	7.7
Net cash flow	(3.8)	(15.0)	(6.0)	(8.5)	(8.8)	(26.3)	(68.4)	-	(68.4)

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.

	2011 $m	2010 $m
Net earned premiums		
UK (Lloyd's)	1,356.1	1,369.4
US (Non-Lloyd's)	28.9	35.8
	1,385.0	**1,405.2**

	2011 $m	2010 $m
Segment assets		
UK (Lloyd's)	5,821.2	5,468.5
US (Non-Lloyd's)	297.5	305.8
	6,118.7	**5,774.3**

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

	2011 $m	2010 $m
Capital expenditure		
UK (Lloyd's)	12.7	8.1
US (Non-Lloyd's)	0.8	2.0
	13.5	**10.1**

3 Net investment income

	2011 $m	2010 $m
Interest and dividends on financial investments at fair value through income statement	64.8	60.2

Realised losses on financial investments at fair value through income statement	(22.0)	(19.3)
Net unrealised fair value gains on financial investments at fair value through the income statement	10.0	6.2
Investment income from financial investments	52.8	47.1
Fair value loss on derivative financial instruments	(3.7)	-
Investment income	49.1	47.1
Investment management expenses	(9.8)	(9.6)
	39.3	**37.5**

4 Other income

	2011 $m	2010 $m
Commissions received	19.2	15.4
Profit commissions	5.0	10.5
Agency fees	2.1	1.8
Other income	1.8	0.4
	28.1	**28.1**

5 Operating expenses

	2011 $m	2010 $m
Fees payable to the company's auditor for the audit of the group's annual accounts	0.5	0.4
Fees payable to the company's auditor and its associates for other services:		
- Audit of the company's subsidiaries	0.6	0.6
- Tax services	-	0.1
- Actuarial services	0.2	0.2
- Other services	-	0.3
Operating leases	7.5	9.4

6 Employee benefit expenses

	2011 $m	2010 $m
Wages and salaries	93.8	83.9
Short-term incentive payments	28.7	34.0
Social security	9.3	8.5
Share-based remuneration	10.6	9.3
Pension costs	6.1	6.1
	148.5	141.8
Recharged to syndicate 623	(16.1)	(14.4)
	132.4	**127.4**

7 Finance costs

	2011 $m	2010 $m
Interest expense	15.8	13.0

Other finance costs	1.0	1.9
	16.8	**14.9**

8 Income tax expense

	2011 $m	2010 $m
Current tax expense		
Current year	8.4	23.4
Prior year adjustments	(0.5)	(44.9)
	7.9	(21.5)
Deferred tax expense		
Origination and reversal of temporary differences	(1.3)	11.5
Prior year adjustments	(9.7)	43.8
	(11.0)	55.3
Income tax expense	**(3.1)**	**33.8**
Profit before tax	**62.7**	**250.8**
Tax calculated at Irish rate	7.8	31.4
Rates applied	12.5%	12.5%
Effects of:		
- Tax rates in foreign jurisdictions	0.7	7.8
- Non-deductible expenses	(0.1)	0.7
- Tax relief on share based payments - current and future years	(0.3)	0.7
- Under/(over) provided in prior years	(2.8)	(1.2)
- Change in UK tax rates*	(7.5)	(3.4)
- Foreign exchange on tax	(0.9)	(2.2)
Tax charge for the period	**(3.1)**	**33.8**

The weighted average applicable tax rate was 13.0% (2010: 12.5%).

* The emergency budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. It is now expected that the UK corporation tax rate will be reduced to 23% by the end of this four year period. The rate was reduced to 26% with effect from 1 April 2011 and has been further reduced to 25% with effect from 1 April 2012. Accordingly, this rate reduction to 25% has been reflected in the deferred tax liability which forms part of the statement of financial position.

9 Earnings per share

	2011	2010
Basic (cents)	13.0c	42.1c
Diluted (cents)	12.4c	40.2c
Basic (pence)	8.1p	27.4p
Diluted (pence)	7.7p	26.1p

Basic
Basic earnings per share are calculated by dividing profit after tax of $65.8m (2010: $217.0m) by the weighted average number of shares in issue during the year of 505.4m (2010: 515.1m). The shares held in the Employee Share Options Plan (ESOP) of 12.6m (2010: 11.3m) have been excluded from the calculation, until such time as they vest unconditionally with the employees. The weighted average number of treasury shares of 17.4m (2010: 8.2m) have been excluded from the calculation.

Diluted
Diluted earnings per share are calculated by dividing profit after tax of $65.8m (2010: $217.0m) by the adjusted weighted average number of shares of 530.4m (2010: 540.2m). 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 12.6m (2010: 11.3m) have been excluded from the calculation, until such time as they vest unconditionally with the employees. The weighted average number of treasury shares of 17.4m (2010: 8.2m) have been excluded from the calculation.

10 Dividends per share

A second interim dividend of 5.4p per ordinary share (2010: 7.6p, including a special dividend of 2.5p) will be payable on 30 March 2012 to shareholders registered at 5.00pm on 2 March 2012 in respect of the six months ended 31 December 2011. These financial statements do not provide for the second interim dividend as a liability.

Together with the interim dividend of 2.5p (2010: 2.4p) this gives a total dividend for the year of 7.9p (2010: 10.0p, including a special dividend of 2.5p).

The second interim dividend will be payable on 30 March 2012 to shareholders registered at 5.00pm on 2 March 2012 (save to the extent that shareholders on the register of members on 2 March 2012 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

	2011 $m	2010 $m
Gross		
Claims reported and loss adjustment expenses	1,085.6	818.5
Claims incurred but not reported	2,440.6	2,404.1
Gross claims liabilities	3,526.2	3,222.6
Unearned premiums	808.4	824.2
Total insurance liabilities, gross	**4,334.6**	**4,046.8**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	252.4	202.4
Claims incurred but not reported	743.3	621.4
Reinsurers share of claims liabilities	995.7	823.8
Unearned premiums	202.2	211.1
Total reinsurers' share of insurance liabilities	**1,197.9**	**1,034.9**
Net		
Claims reported and loss adjustment expenses	833.2	616.1
Claims incurred but not reported	1,697.3	1,782.7
Net claims liabilities	2,530.5	2,398.8
Unearned premiums	606.2	613.1
Total insurance liabilities, net	**3,136.7**	**3,011.9**

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

	2011			**2010**		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Claims reported and loss adjustment expenses	818.5	(202.4)	616.1	888.7	(255.3)	633.4
Claims incurred but not reported	2,404.1	(621.4)	1,782.7	2,258.3	(640.9)	1,617.4

Balance at 1 January	3,222.6	(823.8)	2,398.8	3,147.0	(896.2)	2,250.8
Claims paid	(871.7)	188.8	(682.9)	(702.4)	161.3	(541.1)
Increase in claims						
- Arising from current year claims	1,386.4	(349.4)	1,037.0	1,091.6	(208.8)	882.8
- Arising from prior year claims	(217.5)	31.0	(186.5)	(231.0)	86.4	(144.6)
- Reinsurance to close	-	-	-	-	-	-
Net exchange differences	6.4	(42.3)	(35.9)	(82.6)	33.5	(49.1)
Balance at 31 December	**3,526.2**	**(995.7)**	**2,530.5**	**3,222.6**	**(823.8)**	**2,398.8**
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 31 December	**3,526.2**	**(995.7)**	**2,530.5**	**3,222.6**	**(823.8)**	**2,398.8**

b) Unearned premiums reserve

	2011			**2010**		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Balance at 1 January	824.2	(211.1)	613.1	876.7	(259.9)	616.8
Increase in the year	1,712.5	(338.5)	1,374.0	1,741.6	(339.5)	1,402.1
Release in the year	(1,728.3)	347.4	(1,380.9)	(1,794.1)	388.3	(1,405.8)
Balance at 31 December	**808.4**	**(202.2)**	**606.2**	**824.2**	**(211.1)**	**613.1**

11.1 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.

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 (ie recent underwriting years or new classes of business).

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

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

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

Where significant large losses impact an underwriting year (eg the events of 11 September 2001, the hurricanes in 2004, 2005 and 2008, 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 and health, marine, political risks and 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 2011 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 %**
Life, accident and health										
12 months								53.1	52.7	50.3
24 months								52.4	52.3	
36 months								45.1		
48 months										
60 months										
72 months										
84 months										
96 months										
108 months										
Marine										
12 months		59.2	62.1	82.7	57.1	58.0	69.1	55.9	50.6	55.0
24 months		45.1	65.6	80.7	42.3	60.1	65.2	52.1	49.7	
36 months		39.0	62.5	71.0	32.7	50.6	59.1	45.4		
48 months		36.2	61.9	69.1	29.0	48.1	62.9			
60 months		35.8	60.8	66.9	28.7	49.5				
72 months		35.7	56.3	65.0	26.4					
84 months		34.9	55.9	64.2						
96 months		35.4	55.7							
108 months		34.8								
Political risks and contingency										
12 months		59.1	67.3	61.0	57.5	57.2	57.5	61.1	61.4	58.7
24 months		36.3	55.7	38.2	36.2	38.9	68.5	38.6	40.2	
36 months		31.6	52.4	28.5	32.6	56.4	73.5	35.3		
48 months		28.7	38.3	24.9	43.3	52.8	87.3			
60 months		31.2	37.3	18.3	39.3	53.5				
72 months		25.2	35.2	17.9	39.0					
84 months		24.3	26.7	17.9						
96 months		21.4	26.5							
108 months		21.4								
Property										
12 months		50.9	65.6	87.9	58.4	58.3	70.9	53.9	58.6	59.1
24 months		37.4	65.3	84.6	44.1	56.4	65.8	42.7	61.7	
36 months		34.6	65.9	83.1	43.0	54.2	64.8	37.6		
48 months		34.0	64.1	88.2	50.3	55.0	62.7			
60 months		33.7	64.5	87.6	50.4	58.6				
72 months		33.7	63.2	85.9	50.2					

84 months		34.8	63.0	85.1
96 months		34.6	63.6	
108 months		34.3		

Gross ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	
Reinsurance											
12 months		58.7	88.2	198.4	52.4	59.6	60.0	60.8	68.1	77.3	
24 months		34.2	82.7	190.4	25.3	26.0	52.0	48.5	148.9		
36 months		28.4	77.3	188.0	24.9	21.5	43.1	40.4			
48 months		28.6	74.9	181.5	23.3	19.8	39.8				
60 months		25.6	72.9	177.6	21.4	18.9					
72 months		25.6	71.9	175.0	21.1						
84 months		24.5	70.8	173.8							
96 months		23.7	69.8								
108 months		23.7									
Specialty lines											
12 months		73.0	71.9	72.0	72.6	72.8	72.2	72.7	73.9	75.6	
24 months		70.1	71.3	72.0	72.7	72.4	72.2	72.7	73.9		
36 months		68.9	67.6	69.8	72.6	72.5	71.9	71.8			
48 months		60.0	64.4	66.3	72.6	72.1	71.9				
60 months		53.2	59.4	62.8	70.8	72.3					
72 months		52.3	58.3	56.1	65.7						
84 months		50.5	56.5	52.3							
96 months		47.2	54.5								
108 months		46.2									
Total											
12 months		63.0	69.1	90.9	62.9	63.6	68.7	62.6	64.7	67.0	
24 months		52.6	69.3	88.3	53.0	59.2	67.7	57.4	72.7		
36 months		49.4	66.6	84.5	50.7	58.1	66.2	53.6			
48 months		44.8	63.6	82.9	52.3	58.4	67.5				
60 months		41.5	61.1	80.1	51.8	59.5					
72 months		40.9	59.3	76.3	49.1						
84 months		40.0	58.0	74.4							
96 months		38.4	57.1								
108 months		37.8									
Total ultimate losses ($m)	1,832.5	448.2	765.5	1,115.1	815.1	1,073.9	1,272.4	1,129.6	1,491.3	1,230.5	11,174.1
Less paid claims ($m)	(1,688.9)	(377.6)	(647.3)	(951.8)	(503.1)	(659.5)	(657.5)	(419.6)	(326.9)	(72.6)	(6,304.8)
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	(74.4)	(505.9)	(580.3)
Gross claims liabilities (100% level) ($m)	**143.6**	**70.6**	**118.2**	**163.3**	**312.0**	**414.4**	**614.9**	**710.0**	**1,090.0**	**652.0**	**4,289.0**
Less unaligned share ($m)	(28.2)	(13.4)	(22.5)	(31.0)	(59.3)	(78.7)	(116.8)	(117.7)	(187.7)	(107.5)	(762.8)
Gross claims liabilities, group share	**115.4**	**57.2**	**95.7**	**132.3**	**252.7**	**335.7**	**498.1**	**592.3**	**902.3**	**544.5**	**3,526.2**

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %

Life, accident and health										
12 months								51.7	51.4	49.1
24 months								50.6	51.8	
36 months								44.5		
48 months										
60 months										
72 months										
84 months										
96 months										
108 months										
Marine										
12 months		55.4	57.8	55.5	54.0	55.2	61.3	54.4	52.3	55.9
24 months		44.8	53.2	49.1	41.9	56.4	57.0	48.4	49.4	
36 months		40.2	48.6	42.9	32.8	49.4	50.7	39.6		
48 months		39.1	47.8	39.7	31.3	46.6	47.7			
60 months		39.0	46.6	39.2	30.9	47.4				
72 months		39.1	44.2	38.1	29.1					
84 months		38.0	43.8	36.7						
96 months		37.5	43.1							
108 months		37.3								
Political risks and contingency										
12 months		56.7	63.9	63.4	56.1	55.4	55.9	59.0	57.3	54.9
24 months		37.4	58.4	46.7	40.4	39.6	76.3	35.1	37.7	
36 months		34.8	54.2	36.0	37.0	55.1	75.9	32.6		
48 months		33.0	41.3	30.1	47.1	53.8	80.0			
60 months		35.1	40.9	24.4	41.3	52.1				
72 months		27.4	36.2	23.3	39.8					
84 months		25.7	26.3	23.3						
96 months		22.6	25.5							
108 months		22.6								
Property										
12 months		48.6	59.7	65.0	61.1	61.0	67.2	53.6	58.9	60.4
24 months		41.4	60.8	62.0	48.7	59.4	67.2	48.4	65.9	
36 months		39.0	60.3	58.4	47.1	58.6	65.0	45.0		
48 months		38.4	58.5	61.1	50.8	59.2	63.9			
60 months		38.0	58.3	61.7	50.0	62.0				
72 months		38.0	57.4	59.9	50.0					
84 months		39.5	57.3	59.0						
96 months		39.3	57.2							
108 months		39.1								

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %
Reinsurance										
12 months		60.1	88.7	152.6	54.3	55.2	67.5	55.6	76.9	86.9
24 months		39.5	86.4	134.1	37.0	30.1	57.9	52.6	133.8	
36 months		33.9	83.1	128.5	34.8	25.0	48.5	46.7		
48 months		34.6	76.9	119.2	32.5	22.7	46.4			
60 months		31.7	73.6	112.9	31.0	22.1				
72 months		31.7	72.0	111.6	31.0					

84 months		30.3	71.4	106.2							
96 months		29.4	70.0								
108 months		29.4									
Specialty lines											
12 months		68.6	68.7	69.2	68.6	69.7	70.1	69.8	71.2	72.7	
24 months		67.2	68.5	69.2	68.5	68.8	70.1	69.7	71.2		
36 months		66.0	65.7	67.4	68.6	68.8	70.0	69.0			
48 months		57.7	62.1	63.8	68.5	67.3	70.0				
60 months		52.7	56.9	58.8	63.7	67.3					
72 months		50.8	53.5	53.7	56.6						
84 months		48.9	51.0	49.3							
96 months		45.2	48.7								
108 months		45.0									
Total											
12 months		60.1	65.3	73.1	62.1	63.1	66.3	60.3	64.4	66.5	
24 months		53.0	65.4	69.0	54.3	59.2	66.9	56.9	69.7		
36 months		50.5	62.7	65.1	51.6	58.6	64.3	53.3			
48 months		46.4	59.4	62.4	52.2	57.5	63.9				
60 months		43.7	56.4	59.3	50.0	58.1					
72 months		42.6	53.9	56.4	46.5						
84 months		41.8	52.1	53.4							
96 months		39.8	50.8								
108 months		39.6									
Total ultimate losses ($m)	993.8	377.9	573.3	626.7	631.2	910.2	976.5	852.9	1,167.8	1,057.7	8,168.0
Less paid claims ($m)	(922.0)	(329.2)	(476.0)	(502.3)	(423.1)	(574.4)	(571.2)	(374.1)	(301.6)	(69.3)	(4,543.2)
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	(75.2)	(474.4)	(549.6)
Net claims liabilities (100% level) ($m)	**71.8**	**48.7**	**97.3**	**124.4**	**208.1**	**335.8**	**405.3**	**478.8**	**791.0**	**514.0**	**3,075.2**
Less unaligned share ($m)	(14.5)	(9.2)	(18.5)	(23.6)	(39.5)	(63.8)	(77.1)	(78.4)	(135.2)	(84.9)	(544.7)
Net claims liabilities, group share	**57.3**	**39.5**	**78.8**	**100.8**	**168.6**	**272.0**	**328.2**	**400.4**	**655.8**	**429.1**	**2,530.5**

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2011 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 and health
The 2009 underwriting year has continued to develop favourably and the claims development to date has been in line with or better than that experienced historically by the team.

Marine
With the exception of 2007 where there was a late developing shipbuilding claim, all other years have continued to exhibit a reducing net ultimate loss ratio trend. The gross development on the 2008 underwriting year arose on a liability account claim, which benefited heavily from inuring reinsurance.

This team continues to report profitable loss ratios on all underwriting years despite the impact of increased piracy, the 2005 and 2008 hurricanes and the Deepwater Horizon disaster.

Political risks and 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 2011, those claim estimates have remained robust and we have continued to see improvement. This has been somewhat masked by setting claim reserves earlier this year in respect of exposure to the uprising in Libya.

The 2009 and 2010 underwriting years show a reversion to more benign claims experience. We continue to monitor claim frequency on a calendar month basis as an early indicator for future development.

Property
Ultimate claims increased on the 2010 underwriting year as a result of the catastrophe events of 2011. The development on the 2007 underwriting year arose from our engineering class and relates to the construction of a power generation plant.

All other underwriting years showed downward movement in claim estimates.

Reinsurance
The reserves for the 2005 hurricanes and the 2010 Chilean earthquake have been reduced during the year as more certainty has been gained. This has benefited the 2004, 2005, 2009 and 2010 underwriting years.

The 2010 and 2011 underwriting year ultimate loss ratios have been set higher to reflect the claims experience on the 2011 catastrophes.

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

During 2011 the team maintained its vigilance regarding the potential impact of the recession on claims experience in the 2007, 2008 and 2009 underwriting years. The conclusion remains that the ultimate loss ratios are robust.

Our 2010 and 2011 underwriting year loss ratios have opened slightly higher than in previous years. This reflects the rating and claims environment and allows consistency to be maintained in our reserving philosophy.

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.

The Tohoku earthquake in Japan, the Christchurch earthquake in New Zealand, the political unrest in Libya, the tornados in the US, and the floods in Australia and Thailand are all current year events. The claims arising in respect of these events have been classified as current year losses and the related claims have been disclosed as such in the table below.

Beazley's reserving policy is to maintain catastrophe margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released on those classes affected by the 2011 catastrophe events which has resulted in a higher than average prior year reserve release.

The net of reinsurance estimates of ultimate claims costs on the 2010 and prior underwriting years has improved by $186.5m during 2011 (2010: $144.6m). 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.

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**

2010	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	33.8	120.3	43.9	158.1	105.0	421.7	882.8
Prior year							
- 2007 underwriting year and earlier	-	(10.2)	(8.0)	(2.0)	(6.8)	(56.9)	(83.9)
- 2008 underwriting year	1.8	(12.6)	1.3	(9.5)	(12.0)	-	(31.0)
- 2009 underwriting year	(0.5)	(7.9)	(12.1)	(5.9)	(3.3)	-	(29.7)
	1.3	(30.7)	(18.8)	(17.4)	(22.1)	(56.9)	(144.6)
Net insurance claims	**35.1**	**89.6**	**25.1**	**140.7**	**82.9**	**364.8**	**738.2**

12 Subsequent events

There are no events that are material to the operations of the group that have been announced 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. Beazley plc obtained an A rating as did Beazley Insurance Company, Inc.
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.

This information is provided by RNS
The company news service from the London Stock Exchange

END

FR BKODBKBKKABK