Sustained performance

The Cuthbert Heath Award
2013 Winner
For excellence in claims service

28 years of profitable growth

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

2004
$1,374.9m
Managed gross premiums

$736.2m
Group share

Construction & engineering account started

2005
$1,485.1m
Managed gross premiums

$1,015.6m
Group share

Beazley MGA started in US

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

US hurricanes Katrina, Rita and Wilma $101.0bn

2006
$1,762.0m
Managed gross premiums

$1,371.0m
Group share

Beazley takes full ownership of APUA and renames it Beazley Limited

Expansion of construction & engineering team into Singapore

Beazley opens new office in Paris

Lloyd's active members: 2,211

Capacity: £14.8bn

Syndicates: 65

2007
$1,919.6m
Managed gross premiums

$1,561.0m
Group share

2008
$1,984.9m
Managed gross premiums

$1,620.0m
Group share

Beazley opens new office in Munich

Political risks & contingency group formed as new division

Acquisition of Momentum Underwriting Management

Accident & life formed as a new division

US hurricane Ike $20bn

1986 → 1991

1986: $13.4m
Managed gross premiums

1991: $42.5m
Managed gross premiums

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

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

Specialty lines and treaty accounts started

UK windstorms $3.5bn

European storms $10bn

1992 → 1997

1992: $58.8m
Managed gross premiums

1997: $128.4m
Managed gross premiums

Management buyout of Hiscox share

Commercial property account started

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

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

US hurricane Andrew $17bn

UK Bishopsgate explosion $750m

US Northridge earthquake $12.5bn

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

2009

$2,121.7m
Managed gross premiums

$1,751.3m
Group share

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

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

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

2010

$2,108.5m
Managed gross premiums

$1,741.6m
Group share

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

Beazley changes functional and presentational currency to US dollar

Beazley opens new office in Oslo

Special purpose syndicate 6107 formed to grow reinsurance business

Chile and NZ earthquakes $13.5bn

Deepwater Horizon explosion triggers biggest oil spill in history

2011

$2,079.2m
Managed gross premiums

$1,712.5m
Group share

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

Launch of the Andrew Beazley Broker Academy

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

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

Tohoku earthquake in Japan $35bn

Floods in Thailand $15bn

US tornadoes $14bn

NZ earthquake $15bn

2012

$2,278.0m
Managed gross premiums

$1,895.9m
Group share

Expansion into aviation and kidnap & ransom markets

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

Political risk & contingency expand into French market

Superstorm Sandy $20-25bn

2013

$2,352.3m
Managed gross premiums

$1,970.2m
Group share

Construction Consortium launched at Lloyd's

Miami office opened to access Latin American reinsurance business

Beazley Flight - comprehensive emergency evacuation cover – launched

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

Local representation added in Rio to develop Latin American insurance business

1998

$168.8m
Managed gross premiums

Recall, contingency and political risks accounts started

Marine account started

European storms $12bn

2000

$256.1m
Managed gross premiums

2001

$431.6m
Managed gross premiums

Management buyout of minority shareholders

EPL and UK PI accounts started

Flotation raised £150m to set up Beazley Group plc

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

US 9/11 terrorist attack $20.3bn

SARS outbreak in Asia $3.5bn

Flotation 2002

2003

$1,148.7m
Managed gross premiums

Sustained performance

On 2 November 2012 New York mayor Michael Bloomberg announced the cancellation of the 42nd New York marathon in the wake of superstorm Sandy, two days before it was due to be run. The event was insured at Lloyd's and led by Beazley: the cancellation claim was settled swiftly.

A year later, we were delighted once again to support the New York marathon. A record field of 50,740 runners marked the city's resurgence after Sandy. The winners, Geoffrey Mutai and Priscah Jeptoo, averaged 4.54 mins and 5.32 mins per mile respectively over the 26.2 miles.

Profit before income tax

$313.3m

(2012: $251.2m)

Combined ratio

84%

(2012: 91%)

Return on equity

21%

(2012: 19%)

Strategic report

4 Business model and strategy
5 Our key performance indicators
6 Our key differentiators
10 High performing culture
12 Chairman's statement
14 Chief executive's statement
18 Q&A with the chief executive
20 Performance by division
22 Life, accident & health
24 Marine
26 Political risks & contingency
28 Property
30 Reinsurance
32 Specialty lines
34 Financial review
34 Group performance
40 Balance sheet management
44 Group structure
45 Operational update
47 Risk management
52 Corporate social responsibility
57 Directors' report

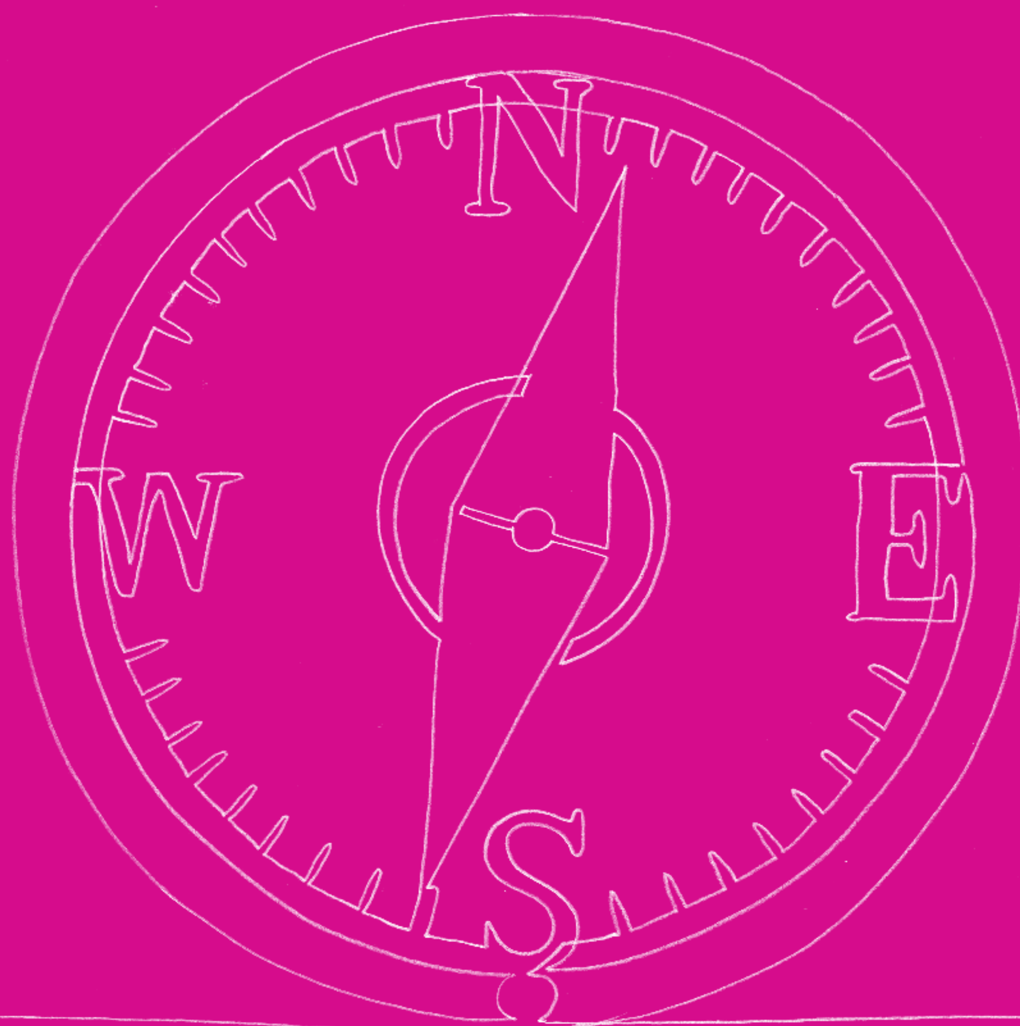
Governance

61 Letter from our chairman
62 Board of directors
64 Investor relations
66 Statement of corporate governance
73 Letter from our chairman of the remuneration committee
74 Directors' remuneration report
99 Statement of directors' responsibilities
100 Independent auditor's report

Financial statements

105 Consolidated statement of profit or loss
106 Statement of comprehensive income
107 Statement of changes in equity
108 Statements of financial position
109 Statements of cash flows
110 Notes to the financial statements
167 Glossary

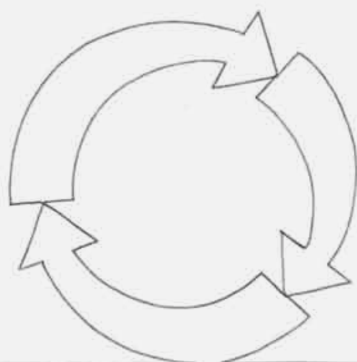
Strategic report



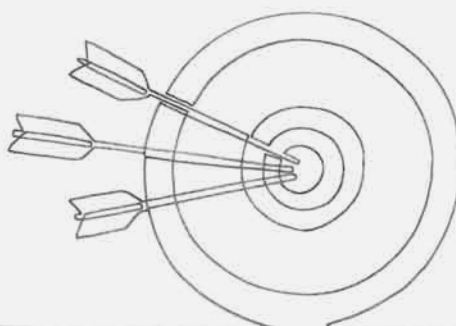
Strategic report

The strategic report describes our corporate strategy, our business model and the key differentiators that distinguish our business. It includes perspectives from our chairman, chief executive officer and other senior executives on the company's performance in 2013 and prospects for the year ahead.

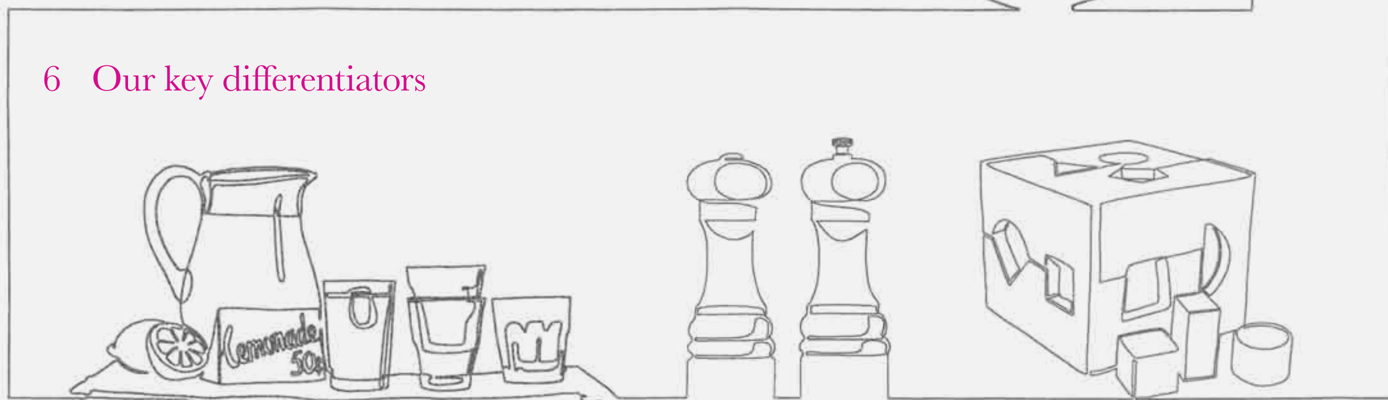
4 Business model and strategy



5 Our key performance indicators



6 Our key differentiators



In this section

4 Business model and strategy
5 Our key performance indicators
6 Our key differentiators
10 High performing culture
12 Chairman's statement
14 Chief executive's statement
18 Q&A with the chief executive
20 Performance by division
34 Financial review
45 Operational update
47 Risk management
52 Corporate social responsibility
57 Directors' report

10 High performing culture

12 Chairman's statement

18 Q&A with the chief executive

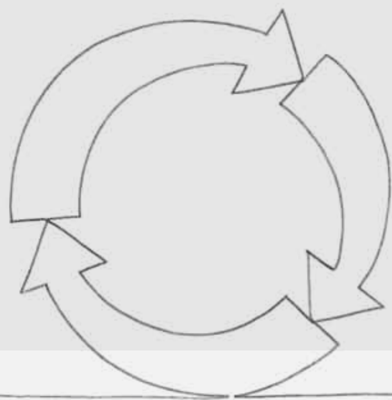
14 Chief executive's statement

A business model and strategy that support high performance

Our business model

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

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



Our strategy

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

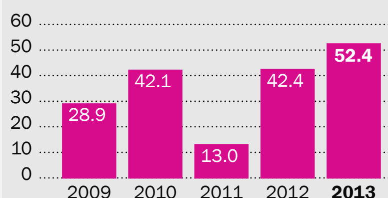
- Prudent capital allocation to achieve a well diversified portfolio that is resistant to shocks in any individual line of business
- The creation of an environment in which talented individuals with entrepreneurial spirit can build successful businesses
- The ability to scale our operations to ensure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

Our key performance indicators

KPIs

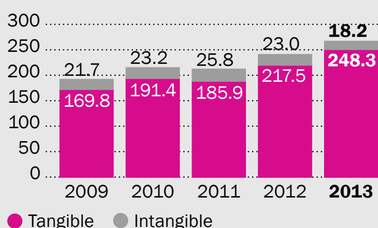
Financial highlights

Earnings per share (c)



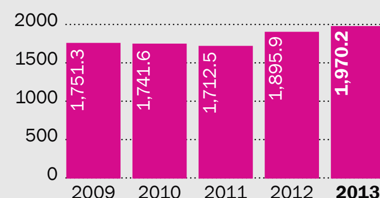
Basic EPS is at 2.0x total dividend cover for 2013. Average EPS over the last five years is at 4.5x average dividend cover (excluding the special dividends).

Net assets per share (c)



11% growth in net assets per share during 2013.

Gross premiums written ($m)

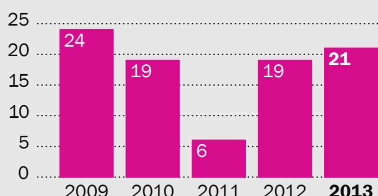


Growth of 4% in 2013 and 12% since 2009.

Dividends per share (p)

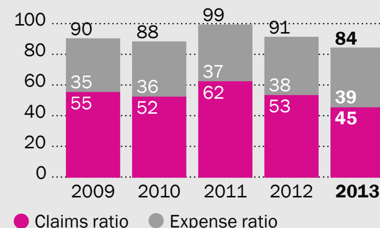
The second interim dividend in 2013 is in line with our dividend strategy and has grown by 6%. In addition we are paying a special dividend of 16.1p.

Return on equity (%)



Cumulative five year return on equity of 89%.

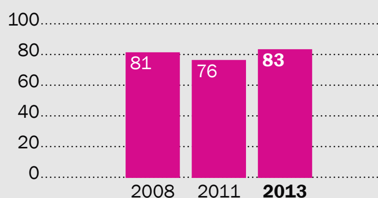
Combined ratio (%)



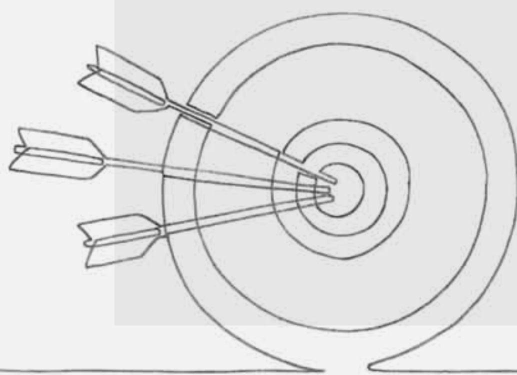
Our combined ratio has averaged 90% over five years.

Non-financial highlights

Great Place to Work survey (%)



Since 2008, Beazley has run an employment engagement survey (now every two years) managed by the Great Place to Work® organisation. In 2013, for the third time in a row, a large majority of employees rated Beazley a great place to work.



For further details go to page 104

Our key differentiators

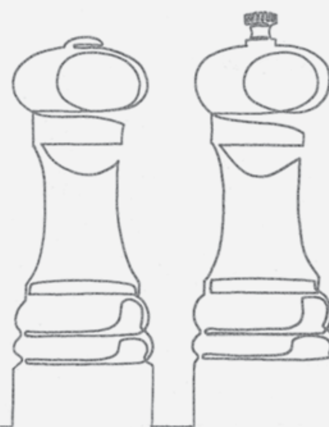
We seek to differentiate ourselves from our competitors in three key ways, all of which are important value drivers for Beazley.

Entrepreneurial spirit

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

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

In the course of 2013, we asked our people to identify the behaviours that they believed most strongly characterised Beazley. They identified seven qualities, which are described in 'High performing culture' on pages 10 and 11. Many of these qualities – such as boldness, expertise, creativity and passion – are fundamental to entrepreneurial organisations. Others – such as friendliness, honour and a commitment to deliver on our promises – help foster an environment of trust and mutual support within the company that is equally important to our success.



Strong partnerships

Our business is not conducted through anonymous transactions – we rely on strong relationships with both brokers and clients. The reciprocity of these relationships matters. Strong partnerships with clients are based on the expectation that Beazley will be prepared to provide continuity of coverage over the years. Our clients understand that, for us to deliver on this expectation, we need to charge a fair premium to cover the risk even if, for a time, a competitor may be willing to write the same risks at an uneconomic rate. By adopting this approach, we have been able to provide clients with reliable cover year after year.

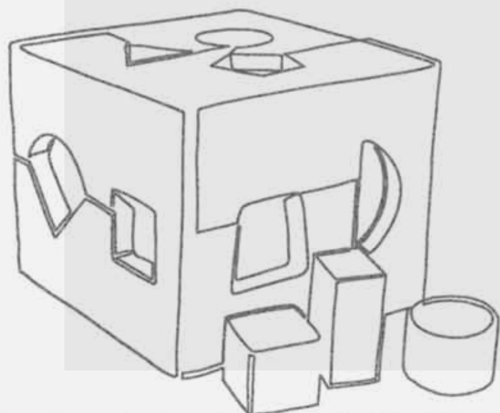
We believe that brokers add enormous value to clients in the purchase of insurance and reinsurance in the areas in which we specialise. All of our underwriters work constantly to strengthen their personal relationships with brokers and our broker relations team, headed by Dan Jones, keeps a close watch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

Diversified business

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

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

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



☛ Life, accident & health

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

☛ Marine

We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. We insure 30% of the top 200 oil and gas companies and are a major lead for upstream energy clients. We have extensive experience insuring a wide variety of cargoes including project, fine art and specie.

☛ Political risks & contingency

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

☛ Property

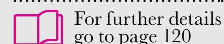
We've protected clients ranging from Fortune 1000 companies to homeowners through 21 years of natural and man-made catastrophes. We underwrite this business through three platforms – Lloyd's, the US and Singapore – with a business focus on commercial property, engineering and construction risks and select homeowners' business.

☛ Reinsurance

The reinsurance team specialises in writing worldwide property catastrophe; per risk; aggregate excess of loss and pro-rata business; and casualty clash. More than 80% of our top clients have reinsured with us for 20 years or more.

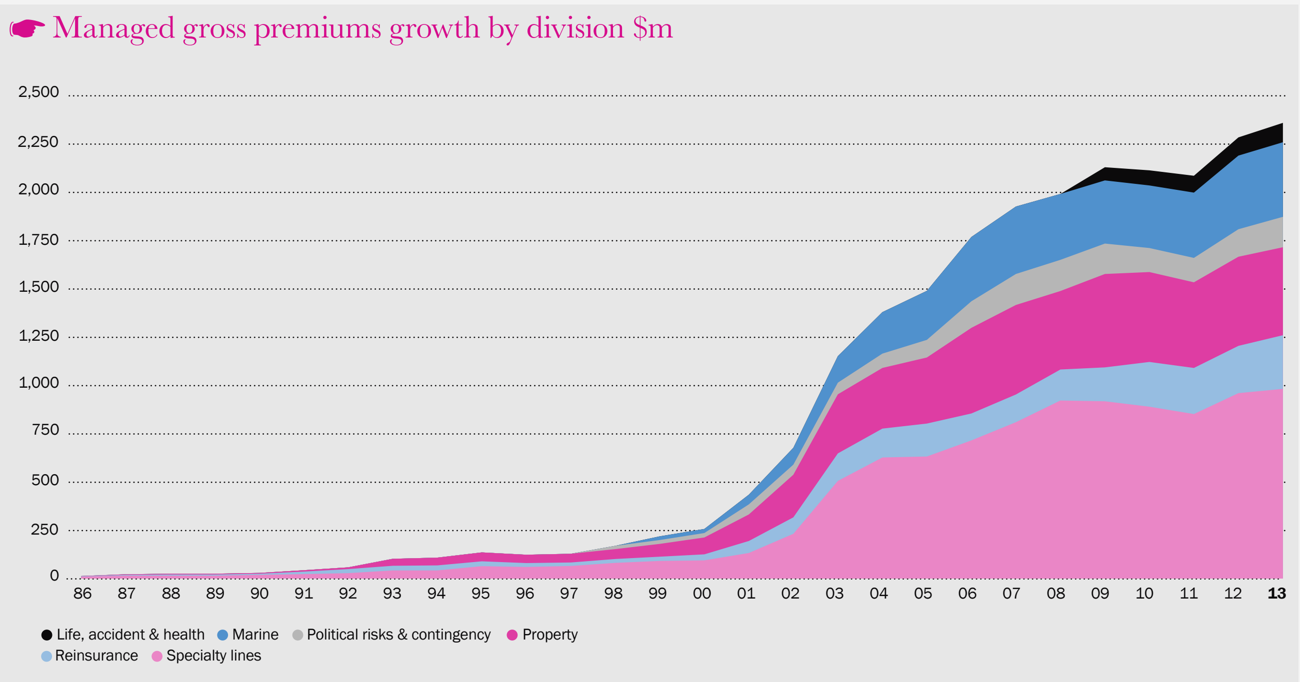
☛ Specialty lines

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

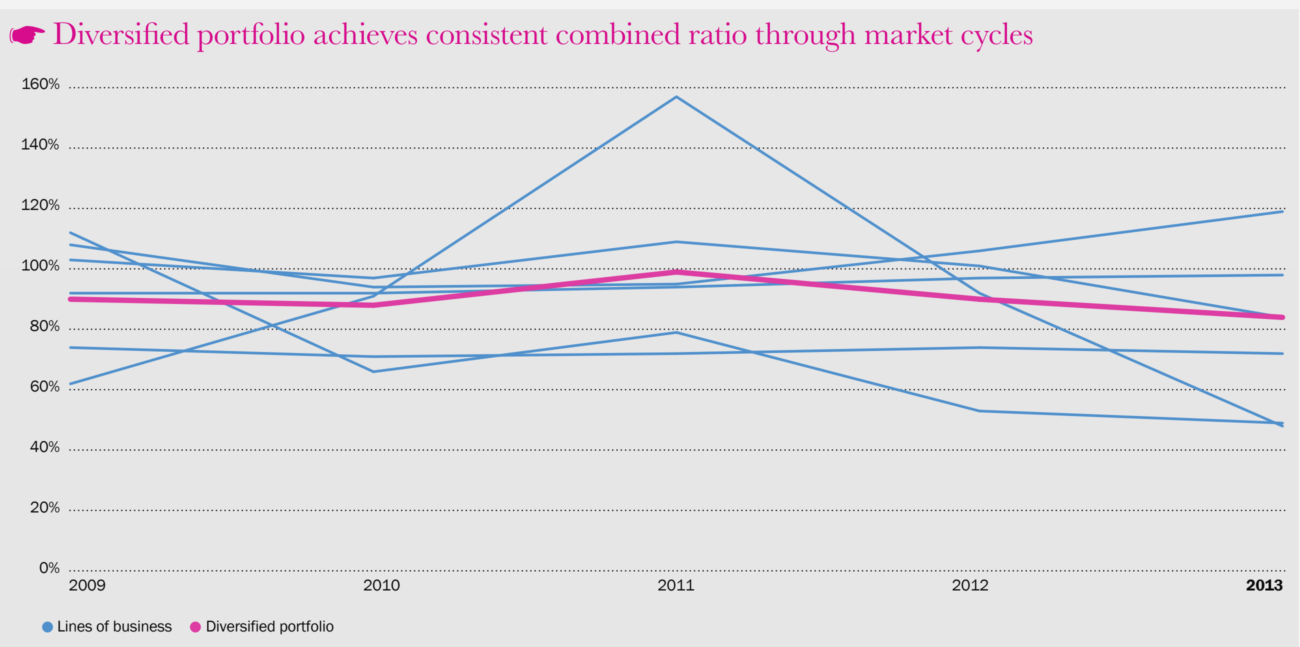


For further details go to page 120

☛ Managed gross premiums growth by division $m



☛ Diversified portfolio achieves consistent combined ratio through market cycles



High performing culture

Our people have built Beazley's success and this year we asked for their thoughts on how we can continue to be a place that attracts, retains and develops the best. With their input we created a series of statements that describe how we do things at Beazley – not just now, but also in the future. We didn't get an external agency to write them or tell us what they should be – they came directly from our people. We call them Being Beazley.

Expert

We're experts in what we do, using our specialist knowledge and skills to add value.

"As experts we focus on niches and aim to understand them better than any of our competitors – our Beazley Flight, Beazley Breach Response and Kidnap & Ransom products are all great examples of this."

Matt Holmes
Head of energy

Bold

We're forward looking, take bold leaps and don't always take the path people expect to ensure we deliver for our customers, our people and our shareholders.

"I'm proud we look at differentiating ourselves by offering something more than just money in the event of a claim. On many lines of business we also offer risk management and loss control advice to clients – because prevention is better than cure."

Steven Chang
Claims team leader

Friendly

We're friendly, approachable and support each other.

"I joined as an underwriting assistant in specialty lines in April 2013 and my experience as a new joiner has been like nothing I've experienced elsewhere – I've found Beazley people to be genuinely helpful and friendly."

Amy Bryan
Underwriting assistant

Deliver

We give straight answers promptly and deliver on our promises.

"I'm so proud to be part of a team that rose magnificently to the challenge of handling all the claims from superstorm Sandy, and as a result were recognised for excellent claims service by our brokers and at the Insurance Insider Awards."

Anthony Hobkinson
Group head of claims

Passionate

We are not obsessed with hierarchies or status – we're just passionate about what we do.

"We've got so much that we're passionate about – our people, our service, our products, our innovation."

Valerie Novak
Office coordinator

Creative

We value good ideas and insights wherever they come from – we have a contagious energy to do things better.

"I love the fact that I work for an organisation that gives us the chance every day to share our ideas and join in discussions through our online ideas portal."

Lila Rymer
Head of political risks & trade credit – US

Honourable

We do the right thing. Not because a rule book tells us to, but because it's the right thing to do.

"We have a strong focus at Beazley on being a responsible business and I like the fact that we're supported to give back and get involved in our communities."

Dharmesh Patel
Head of finance – Asia Pacific

Beazley: a great place to work

It's our people who shape and make our organisation so we constantly seek their input – whether it's through our ideas online portal B-Hive, Q&A sessions with the executive, lunch and learn sessions, or by completing the Great Place to Work® official survey every two years.

In 2013, 87% of our people completed the survey, against an industry benchmark of 70%. This gives us the chance to hear what they think about working at Beazley, find out what we are all doing well and where we could focus more.

To be considered a great place to work you must score over 70%. When we took the survey in 2011 we achieved this with a score of 76%. However this year the score increased, with 83% of our people agreeing Beazley is a great place to work – a result we are very proud of.

Open communications play a key part in this result and we work hard to ensure our people are kept informed and involved from our weekly news update, so they have their finger on the pulse on what's happening in the industry and within Beazley, to our annual strategy events ensuring everyone knows how we are progressing and what our future plans are.

We also focus on developing and training so our people are given the best possible opportunities to develop their careers. This year we delivered over 400 initiatives and courses.

During the year we also continued our focus on diversity to maximise the benefit of the varied backgrounds and personalities that make up Beazley. We strongly believe that a diverse workforce makes for a more adaptable and successful organisation.

Chairman's statement

The benefits of Beazley's diversified portfolio can be seen in the relative stability of our combined ratio through widely varying claims scenarios.

Dennis Holt
Chairman

I am pleased to report that your company delivered an excellent performance in 2013, achieving a return on average shareholders' equity of 21% (2012: 19%).

This performance was underpinned by a combined ratio of 84% (2012: 91%). A low incidence of catastrophe losses contributed to this, but strong underwriting results were not confined to catastrophe-exposed lines of business. Earnings per share rose to 52.4c and net tangible assets per share rose 14% to 248.3c. Beazley's share price during the year reflected the strong performance of the business, climbing 52%.

The board is pleased to announce a second interim dividend of 5.9p per ordinary share plus a special dividend of 16.1p per ordinary share. Together with the first interim dividend of 2.9p this takes the total dividends declared in 2013 to 24.9p per ordinary share (2012: first interim dividend of 2.7p, second interim dividend of 5.6p plus a special dividend of 8.4p, totalling 16.7p).

It has been said that running a successful insurance business is easy to describe but hard to execute. Beazley's vision is to become, and be recognised as, the highest performing specialist insurer. In making progress towards this goal we are frequently evaluating and reappraising our business mix, while ensuring that the overall level of risk grows proportionately with the company's capital base.

The strong performance of our marine division in 2013, described by Clive Washbourn on page 24, is illustrative of our approach. Premium rates for war risks, including piracy, have declined sharply as attacks in vulnerable sea lanes, particularly off the Horn of Africa, have diminished. But we have simultaneously been able to increase our marine liabilities book substantially on the back of rate rises triggered in part by the Costa Concordia loss, the largest in marine history. With a well diversified book of business, which now also includes aviation risks as well as marine and energy risks, the team is able to make the adjustments needed to maintain profitability.

> Innovation is a key element of our strategy. As existing lines of business mature and new competitors crowd in, a specialist insurer such as Beazley must constantly look for new ways to enhance the value it offers to brokers and clients.

This approach, replicated across the company, supports efficient capital management. The benefits of our diversified portfolio can be seen in the relative stability of the company's combined ratio through widely varying claims scenarios. Over the past five years, Beazley has achieved a group combined ratio averaging 90%, including an underwriting profit in 2011, one of the worst years in history for insured natural catastrophes.

Innovation is also a key element of our strategy. As existing lines of business mature and new competitors crowd in, a specialist insurer such as Beazley must constantly look for new ways to enhance the value it offers to brokers and clients. This sometimes takes the form of new products – Beazley has been a pioneer in offering clients expert services in response to a claim, where such services are more relevant and valuable than a financial indemnity. But innovation also occurs daily in the interactions between underwriters and brokers to cover the more challenging risks.

To innovate in this way requires a high level of underwriting expertise and experience, which Beazley unquestionably possesses. In my two years to date as chairman of the company I have been delighted to see the company's continuing success as a magnet for talent in our industry. This applies not only to underwriting but also to the other disciplines, including high quality claims service, in which brokers and clients expect us to excel.

Beazley is fortunate to possess not only a seasoned senior management team, but considerable bench strength across its operations. The rewards of the company's leadership are aligned to the long term performance of the company through a long term incentive plan with demanding performance targets tied to the growth of net asset value per share.

Dividend policy and capital management

The board strategy is to grow the dividend by between 5% and 10% per year and this has always been achieved. In addition, our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities that may arise; this is further supported by our fully undrawn banking facility. Given our growth plans and profitability, we are targeting a surplus capital buffer in the range of 10-20%. To the extent that we have surplus capital substantially outside of this range, the board will consider means to return this capital to shareholders, as evidenced by the fact that we have paid special dividends in four of the last seven years.

Outlook

Achieving profitable growth is not easy in the current insurance market and as we signalled at half year we see a number of markets in which we operate becoming more competitive.

That said, we do see profitable opportunities for moderate premium growth within our existing risk appetite in the course of 2014. In the board's view, Beazley remains on track towards the achievement of its vision.

Dennis Holt
Chairman

5 February 2014

Chief executive's statement

Our combined ratio in 2013 was the best we have reported since becoming a public company.

Andrew Horton
Chief executive

Beazley's businesses delivered an excellent result in 2013, generating a profit before income tax of $313.3m (2012: $251.2m) on gross premiums of $1,970.2m (2012: $1,895.9m). Our combined ratio of 84% (2012: 91%) is the best we have reported since becoming a public company at the end of 2002. While we were aided by a benign claims environment, this was also testament to a focus on underwriting profitability that has sustained Beazley's performance throughout the company's history.

With a longstanding commitment to profitability first and growth second, we have nevertheless continued to identify attractive growth opportunities. Specialty lines, our largest division, grew net premiums by 7% to $708.0m, buoyed by rate rises of 3%. Property, our second largest division, saw growth in net premiums of 12% and delivered a contribution to profits of $65.2m, the largest in the division's history. Property rates rose by 3% and, across the company, rates rose on average by 1%.

These two divisions account for the vast majority of business we underwrite locally in the United States, our largest market and one that is now home to 340 Beazley employees and the location of ten Beazley offices. We saw the growth of our locally underwritten US premiums accelerate in 2013, increasing by 17% to $451.8m.

Prior year reserve releases contributed $218.0m to our underwriting result (2012: $126.0m). A consistent approach to reserving has long been an important feature of our business model, enabling us to make prior year reserve releases as claims crystallise.

Profitable growth in the current market is by no means plain sailing. At the half year, we identified increasingly competitive headwinds from a number of sources. In particular, there has been an influx of new capital from pension funds into the reinsurance market, which will continue to depress rates, particularly for peak zone US catastrophe cover. Our reinsurance division, representing 11% of our total gross premiums, saw rates on renewals fall by 3%. With offices in Munich, Singapore and, most recently, Miami (serving cedants in Latin America) our reinsurance team is still able to grow by focusing increasingly on the development of non-US business.

Our marine division continued to deliver very impressive underwriting results in 2013 in the face of stiff competition, particularly in the hull market, achieving a combined ratio of 72% (2012: 75%).

Much of our success as a company – and particularly the consistency of our performance – has derived from the careful balance of our risk portfolio, comprising lines of business that are not correlated. Not all lines will perform well in all years, as illustrated in 2013 by the contrasting fortunes of our political risks and contingency division and our life, accident & health division. The former had a good year, accounting for 7% of group premiums but almost 17% of group profits. By contrast, life, accident & health's combined ratio of 125% reflected challenging market conditions in Australia (to which we have responded with significant rate rises) and continuing uncertainty over the roll-out of the Affordable Care Act in the US, which depressed demand for the health and disability 'gap protection' cover we offer to the employees of US companies through their employers. We continue to see growth potential in 2014 in this market as the regulatory environment stabilises.

Claims activity

The 2013 Atlantic hurricane season was the first since 1994 to end with no major hurricanes and, overall, our claims experience has been relatively light. Our focus on providing high quality claims service remains very strong, however, and we were delighted that this was recognised in 2013 with two awards for our handling of claims in the aftermath of superstorm Sandy in October 2012.

A landmark of a different kind occurred in late November, when our technology, media and business services team helped a client manage its first – and our 1,000th – data breach. Data breaches occur with high frequency and require a very specialised and multi-faceted response. Beazley is the only insurer to have established a dedicated business unit to help clients handle data breaches successfully – an important factor in the huge success of our Beazley Breach Response product.

Investment performance

Government bond yields rose sharply in the US and Europe in 2013, anticipating a reduction in the amount of quantitative easing by the US Federal Reserve. The rise in yields, the largest for several years, was detrimental to our investment portfolio and contributed to a reduction in our overall return, from 2% in 2012 to 1% in 2013. Our alternative asset allocation contributed positively to the investment portfolio, with equity and credit funds performing especially well.

During 2013 we made some changes to the management of our investment portfolio by changing our relationship with Falcon Money Management. This should enable us to achieve lower investment management fees in future periods.

Risk management

We continue to monitor closely the risks that could impact the group. Given the nature of our business, the key risks that impact financial performance arise from insurance activities. These include the potential for changes in the tort law environment that could affect multiple teams within our specialty lines division, as well as natural or man-made catastrophe losses impacting our short tail lines of business. Alongside these insurance risks, the success of the group depends on managing the risks to the execution of its strategy. The board continues to receive a suite of risk information to help it mitigate these and the other risks, which are described in more detail on page 47.

Growth opportunities

We have a clear preference for developing organic growth opportunities but we would consider acquisition opportunities, on an exceptional basis. In 2013 we continued to plant the seeds of future growth, hiring talented individuals who in our judgement will be able to help us expand into new geographies or lines of business.

Latin America has not historically been a major source of business for Beazley underwriters, but the rapid evolution of many of the region's insurance and reinsurance markets led us to reappraise opportunities in the region in 2012 and early 2013. In July we opened an office in Miami to focus on the development of reinsurance business in Latin America, headed by Paul Felfle. And in December we announced the appointment of Ricardo Ortega as head of business development in Latin America, based in Rio de Janeiro. With significant infrastructure investments now under way in Brazil and elsewhere, construction and engineering risks present one area of opportunity among many.

We continue to see substantial growth opportunities in Europe. In the course of 2013, the European Union took further steps towards the adoption of a tighter regulatory regime for data breach notification that will result in the EU being far more like the United States in this respect, increasing the appeal of our market leading cover for this risk. And in May we welcomed Matthew Norris, one of the most experienced technology underwriters in the London market, to join our growing European team focused on small scale professional indemnity business.

The insurance needs of small technology, media and consulting companies in Europe are evolving rapidly and we see significant growth opportunities in this sector, working closely with brokers.

Our marine division also began to reap the benefit of recent senior level hires. In its first full year of trading, our aviation team, under the leadership of David Oates, wrote business worth $28.7m. Premiums for marine liability business, headed by Phil Sandle, rose from $14.7m to $25.9m.

Our largest market is and will remain the United States. We write a large volume of predominantly large scale US risks from the Beazley box at Lloyd's, but we also made good headway in 2013 in building our smaller scale business written locally in the US. The head of our specialty lines division, Adrian Cox, relocated to Chicago in August, for a two year secondment, to become chair of the US Management Committee and oversee our US operation.

Product innovation remains very important to us and to the brokers we do business with. In September our political violence team in London launched Beazley Flight, one of a new generation of insurance-based solutions that offer clients specialist response services in the event of a claim. We believe Beazley Flight to be the most comprehensive emergency evacuation cover currently on the market, providing expert advisory and evacuation service in a range of crisis scenarios.

Of course the Lloyd's market itself is well known as a source of innovation in insurance, so it was gratifying in May to be able to participate in an initiative that stands to increase the attractiveness of Lloyd's to large scale buyers of construction and engineering insurance. Beazley is one of four Lloyd's insurers to form the Construction Consortium at Lloyd's. Through the consortium we will be able to provide capacity for the largest projects, up to a maximum of $166m per risk, offering an alternative to the largest non-Lloyd's insurers.

Broker relations

Great products and skilled underwriters are necessary but not sufficient conditions for success in our business. Strong broker relationships are also critical. We work with brokers at multiple levels and are constantly looking for ways to improve our service and enhance the value we provide. Unlike many insurers, we make an effort to include our claims professionals in many of our broker meetings as we believe that the knowledge and skills of our claims staff are important differentiators for Beazley.

Responsibility for managing our strategic relationships with key broking firms falls to our broker relations team, headed by Dan Jones. In the course of 2013, we have continued to see efforts by brokers to streamline the placement process and reduce the number of carriers they routinely do business with. We are happy to participate on broker panels and in other arrangements that do not curtail our discretion in writing, or declining, individual risks.

Solvency II

After very extensive deliberations, Solvency II is now scheduled to come into force on 1 January 2016. As described in earlier communications, we have invested heavily in preparing for the new regime and are confident we will be ready.

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This has been a year of wide ranging achievements at Beazley and I am very grateful to all of our employees, working in often challenging markets, who have made these achievements possible. But the culture and shared values that bind our people together are in many ways even more important than individual accomplishments, although harder to describe.

Every two years, we have a valuable opportunity in the form of the Great Place to Work® survey to test perceptions in this area. In 2013, 87% of our people completed the survey. According to the definition adopted by the survey organisers we were already a great place to work, with a score in 2011 of 76%. But this increased sharply last year, with 83% of respondents agreeing that Beazley was a great place to work.

I believe that this measure, which we have included as one of our key performance indicators on page 5 of this report, is intimately related to our financial success as measured by the other key performance indicators. A specialist insurer such as Beazley relies heavily on the skills and versatility of its people to succeed; and a business that is seen so positively by its people enjoys a major competitive advantage.

Andrew Horton
Chief executive

5 February 2014

Q&A with the chief executive

Andrew Horton reviews Beazley's performance and describes the risks and opportunities he foresees in 2014.

Andrew Horton
Chief executive

Q It's been a very benign year for catastrophe losses. How much did this contribute to your underwriting result?

A Five of our six divisions achieved strong underwriting profits last year and much of this contribution – notably from our specialty lines, marine and political risks & contingency divisions – came from non-catastrophe exposed lines of business. The benign catastrophe experience did, however, enable us to release more catastrophe related reserves that might not otherwise have been available.

Q You're giving a lot of money back to shareholders this year. Are there no attractive opportunities to invest it in the business?

A I think our position has been clear and consistent. We hold a capital surplus over and above regulatory requirements. Our preferred use of capital is to deploy it on opportunities to underwrite profitably. However there will be times in the cycle when the group will generate excess capital and not have the opportunity to deploy it. At such points the board will return capital to shareholders.

This is one of those times. We do see opportunities for growth and we expect our business to grow by approximately 5% in 2014. We have taken steps to ensure that we have sufficient capital available to support this growth. But I also believe that an important part of our job is to manage our capital efficiently and to return funds to shareholders when they exceed our needs, prudently quantified.

Q Major new sources of competition are emerging in reinsurance from insurance-linked securities. How much of a challenge does this pose for Beazley?

A I believe that the pension funds that have been allocating funds to reinsurance are here to stay, so we need to think of this as a long term change affecting our business.

Our treaty reinsurance division currently accounts for about 11% of our business and we actually buy more reinsurance than we sell. At the January 1 renewals this year, our reinsurance underwriters saw premium rates fall by approximately 15% for US business and 10% for non-US business. That said, rates are falling from historically high levels and, on the plus side, our property and marine divisions have secured significant savings on their reinsurance purchases.

So the influx of new capacity into reinsurance markets is certainly having an impact on our business. Looking ahead, it may make it more difficult near term for us to grow in reinsurance. And over time the availability of cheaper reinsurance will have a knock-on effect on pricing in the direct insurance market, but I don't expect to see that happening in the coming year.

Q Recent steps taken by the US Federal Reserve are seen as heralding the end of practically free money. As interest rates edge up, will premium rates for your medium tail business head down?

A We maintain a substantial investment portfolio in excess of $4bn. The ratio between this and our shareholders' equity is approximately 4:1, so a 1% investment return translates into a 4% return on equity. Clearly, therefore, higher interest rates are good for our business.

That does not prevent short term fluctuations occurring of the kind we saw in the first half of last year. Then investment returns fell temporarily due to mark to market losses in our fixed income holdings caused by rising interest rates.

Looking ahead, I am sure we will come to see downward pressure on premium rates in certain lines of business as interest rates move up. But we don't expect that to happen for a couple of years and, in 2014, we expect rates for our specialty lines division to increase slightly.

Q How efficient do you think the placement process is for the business Beazley specialises in? Are there measures brokers and underwriters can take to make it more efficient, for the benefit of clients?

A I think there are opportunities to make placement more efficient and we support them, as long as they don't unduly limit our underwriting discretion. For example, many brokers are establishing panels of insurers with expertise and experience in particular lines of business. This narrows the number of insurers the broker needs to market a particular risk to, while ensuring – we would hope – that the insurers that do get shown the risk are experts in the field. We have joined a number of these panels.

Q Your life, accident & health division had a tough year in 2013. How do you see 2014 shaping up?

A We expect the combined ratio of our life, accident & health division to improve significantly in 2014. Since we began to expand in these lines of business through the acquisition of Momentum Underwriting Management in 2008, we have recognised the need to invest. In 2011, we acquired two further businesses in Australia and we have been seeking to build a strong business from the ground up in the US.

In Australia claims increased in 2013 in line with a more challenging economic environment. Working closely with our largest client, we were able to secure renewal terms reflecting this, putting us on a sound footing going forward.

Some of our investments have taken longer to bear fruit than we would have liked. In the US, uncertainties over implementation of the Affordable Care Act have dogged our progress. For example, the so-called 'employer mandate' in the Affordable Care Act – which requires all businesses with more than 50 full time employees to provide health insurance for their employees – has been delayed until 2015. This matters to our business because we focus on 'gap protection' insurance to employees of companies who may wish to buy supplementary cover over and above the cover their employers give them.

Q Do you see mergers and acquisitions reshaping your markets, and can we expect Beazley to be a participant in that process?

A We have seen a lot of interest from non Lloyd's insurers in the Lloyd's market over the past year. I am not at all surprised. The reasons we like Lloyd's – and do more than 90% of our business through our Lloyd's syndicates – are not a secret. Others have cottoned on to them too. Through Lloyd's brokers and thanks to a global system of licences, Lloyd's underwriters have access to a very diverse range of insurance and reinsurance business. This diversity also permits a high level of capital efficiency, because the more diverse and uncorrelated your risk exposures are, the less capital you need to maintain to underwrite them safely.

So I think there are good reasons for non Lloyd's insurers to be interested in obtaining a presence at Lloyd's. For us at Beazley, M&A is not our preferred route to growth. We have grown mainly organically throughout our history and, as long as we can continue to be a magnet for talent in our industry, organic growth should continue to work well for us. That doesn't mean that attractive acquisition opportunities may not arise. It just means that we will continue to be very circumspect in evaluating them.

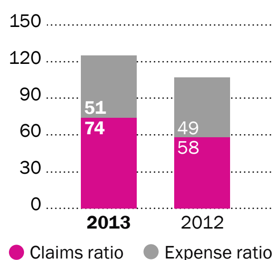
Performance by division

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

☛ Life, accident & health

Christian Tolle
Head of life, accident & health

Combined ratio (%)

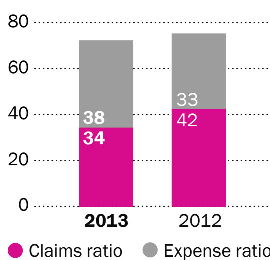


	2013 $m	2012 $m
Gross premiums written	100.3	94.4
Net premiums written	96.1	75.3
Results from operating activities	(17.9)	(2.7)
Claims ratio	74%	58%
Expense ratio	51%	49%
Combined ratio	125%	107%
Rate change	(1%)	–

☛ Marine

Clive Washbourn
Head of marine

Combined ratio (%)

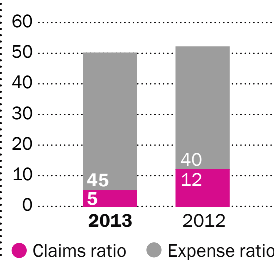


	2013 $m	2012 $m
Gross premiums written	315.9	311.2
Net premiums written	282.1	283.1
Results from operating activities	83.0	83.4
Claims ratio	34%	42%
Expense ratio	38%	33%
Combined ratio	72%	75%
Rate change	(5%)	–

☛ Political risks & contingency

Adrian Lewers
Head of political risks & contingency

Combined ratio (%)



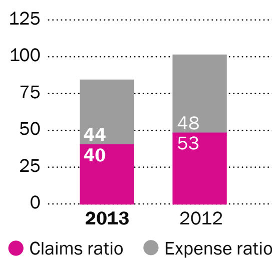
	2013 $m	2012 $m
Gross premiums written	131.2	116.6
Net premiums written	110.1	102.3
Results from operating activities	54.4	53.5
Claims ratio	5%	12%
Expense ratio	45%	40%
Combined ratio	50%	52%
Rate change	(1%)	(1%)

Neil Maidment
Chief underwriting officer

☛ Property

Mark Bernacki
Head of property

Combined ratio (%)

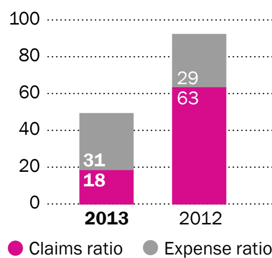


	2013 $m	2012 $m
Gross premiums written	371.4	376.7
Net premiums written	308.7	275.7
Results from operating activities	65.2	22.0
Claims ratio	40%	53%
Expense ratio	44%	48%
Combined ratio	84%	101%
Rate change	3%	6%

☛ Reinsurance

Patrick Hartigan
Head of reinsurance

Combined ratio (%)

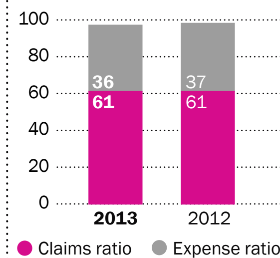


	2013 $m	2012 $m
Gross premiums written	221.6	188.6
Net premiums written	171.5	146.7
Results from operating activities	90.7	21.9
Claims ratio	18%	63%
Expense ratio	31%	29%
Combined ratio	49%	92%
Rate change	(3%)	5%

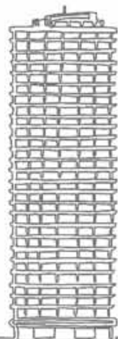
☛ Specialty lines

Adrian Cox
Head of specialty lines

Combined ratio (%)



	2013 $m	2012 $m
Gross premiums written	829.8	808.4
Net premiums written	708.0	659.6
Results from operating activities	53.1	76.3
Claims ratio	61%	61%
Expense ratio	36%	37%
Combined ratio	97%	98%
Rate change	3%	3%

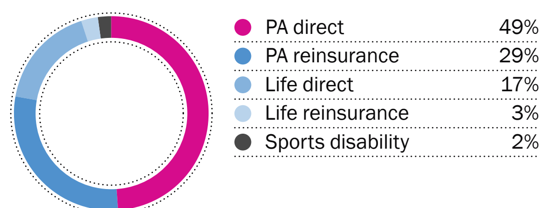


Life, accident & health

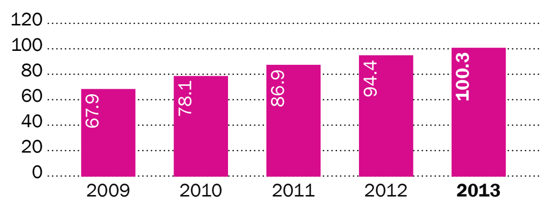
A challenging year but positive long term outlook.

Christian Tolle
Head of life, accident & health

Portfolio mix



Gross premiums written ($m)



$100.3m
Gross premiums written

Beazley's life, accident & health division, led by Christian Tolle, had a challenging year, particularly in the United States and Australia, recording a combined ratio of 125% (2012: 107%) on premiums of $100.3m (2012: $94.4m).

The largest segment of the portfolio – the business underwritten in London on both an insurance and reinsurance basis – continued to earn a profit, although rates have softened for the treaty reinsurance business that accounts for the majority of this book. The division is a leader in the London market for personal accident business and has played a formative role in the recent growth of the specialist life market at Lloyd's. Beazley's life syndicate, syndicate 3622, focuses on renewable group life business that cannot readily be placed in the standard market.

Our Australian business has two main components. We write personal accident risks through selected Lloyd's coverholders, and disability insurance offered to the members of superannuation funds, as the country's government-supported retirement funds are known. This business was originally underwritten by Australian Income Protection, a managing general agency that Beazley acquired in 2011. Some of these accounts have incurred severe losses and we have taken corrective action with significant premium rate rises for 2014 renewals.

We have built a strong team in the US, with a focus on providing gap protection – supplementary health and disability insurance cover – to employees of organisations who are concerned about the limits of cover provided under their corporate benefit plans. Changes in the healthcare marketplace due to the Affordable Care Act (ACA) make gap protection insurance a market that is likely to grow.

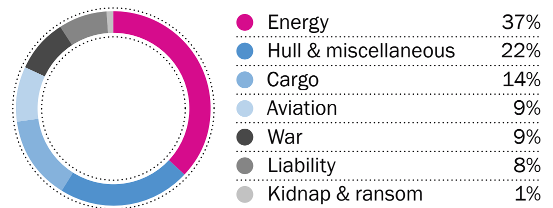
The slow pace of the roll-out of the ACA has caused demand for gap protection cover to grow less rapidly to date than anticipated. We believe the longer term outlook is positive but in 2013 the investments we continued to make to establish this business exceeded the premiums earned. We now have an array of well designed products available in 49 states and we expect demand to grow significantly in 2014.

Marine

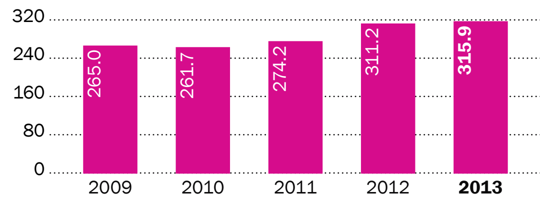
Our underwriters have repeatedly demonstrated an ability to make a healthy return in difficult markets and 2013 was no exception.

Clive Washbourn
Head of marine

Portfolio mix



Gross premiums written ($m)



$315.9m
Gross premiums written

The marine division, led by Clive Washbourn, delivered another strong performance in 2013, achieving a combined ratio of 72% (2012: 75%) on premiums that grew 2% to $315.9m, largely owing to an expansion of the division's marine liability business and the first full year of premiums from aviation business.

The division underwrites a broad book of marine hull, cargo, liability and war risks, as well as a large and growing energy account. Aviation was added to the mix in 2012, with the arrival of a seasoned team headed by David Oates. We will also begin underwriting satellite business later this year, when Denis Bensoussan joins the team.

Premium rates for hull insurance were weak in 2013, in a shipping market dogged by overcapacity and a poor freight market. On a global basis maritime trade remained subdued, with many ships in lay-up. Large swathes of the cargo market suffered the same problem, with container traffic being particularly affected.

Our success is based on our underwriters' ability to identify good risks in niches that other insurers find unattractive. These opportunities can occur anywhere in the world: London's dominance of the marine insurance market and Beazley's strong broker relationships ensure that we see them. Tuna fishing vessels off the west coast of South America, Canadian ferry boats and Namibian research vessels are examples of attractive risks written last year.

In 2013, our offshore energy portfolio accounted for 37% of the marine division's premiums. At $115.5m, energy premiums were 8% down from the previous year due to competitive market conditions. Policy count, however, continues to increase and the team has been rebalancing the portfolio, growing the international portion to offset catastrophe-related business in the Gulf of Mexico. The latter now accounts for around 18% of the portfolio. As a whole, the offshore energy account now has a broader geographic and risk spread than in prior years.

We saw strong growth in our marine liability business, headed by Phil Sandle, who joined us in April. This business nearly doubled in size from $14.7m to $25.9m. Rates have risen since the Costa Concordia disaster and, for the first time since 2004, we participated in the International Group's main reinsurance program, the largest risk to be placed annually in the marine market.

Our aviation team enjoyed a good first year, with strong support from Lloyd's brokers enabling them to achieve an income of $28.7m. At a time of intense competition for the business of the largest airlines, Beazley's aviation team has sought to build a diverse portfolio including tier 2 and tier 3 airlines, private jets and general aviation risks. The strong focus on individual risk selection that has characterised our marine business applies equally to aviation.

Another speciality focus of the division is marine construction business, where we are a market leader, insuring most of the world's major shipyards. This business continued to be profitable in 2013 and, despite a depressed freight market, all the yards we insure continued to have full order books.

The war risks market, which in recent years has largely focused on covering shipping against pirate attacks off the Horn of Africa, continued to be very competitive. Security has been tightened significantly on most vessels, deterring attacks and contributing to a sharp fall in premium rates. Attacks have meanwhile intensified in the Gulf of Guinea off West Africa, but shipping volumes are far lower there than off the east coast. Nevertheless the war risks account remains very profitable.

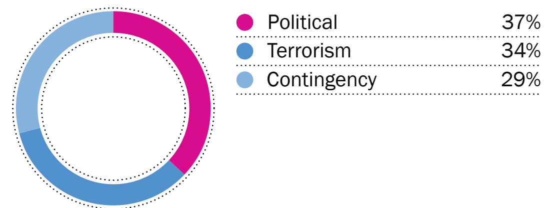
Not all the business we transact comes to us through Lloyd's brokers. Over several years, Steve Smyth has built excellent relationships with regional brokers in the UK to generate UK cargo business underwritten from offices in Birmingham, Manchester, Ipswich and Leeds. In May Beazley's UK marine cargo products were added to the Acturis online broker trading platform, increasing still further the ease of doing business with Beazley.

Political risks & contingency

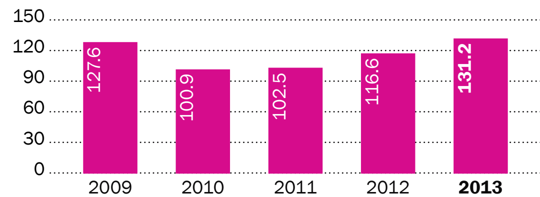
Continued international expansion in core business lines contributes to a combined ratio of 50%.

Adrian Lewers
Head of political risks & contingency

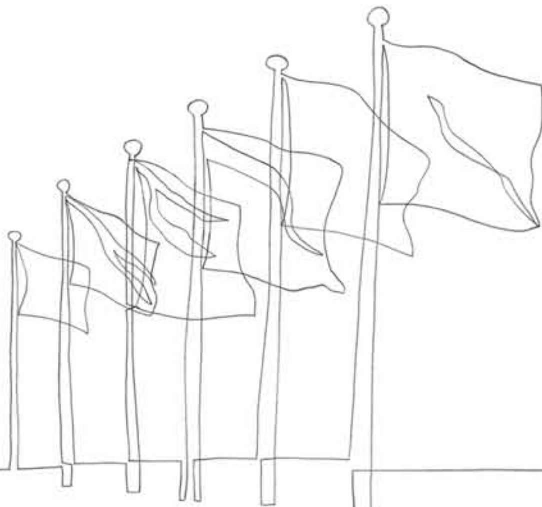
Portfolio mix



Gross premiums written ($m)



$131.2m
Gross premiums written



The political risks & contingency division, (PCG), performed well in 2013, delivering a combined ratio of 50% (2012: 52%) on gross premiums of $131.2m (2012: 116.6m).

The division, led by Adrian Lewers, focuses on three main lines of business, all of which have deep roots at Lloyd's: political risks and trade credit; terrorism (which includes a wide array of political violence risks); and event cancellation, the mainstay of the Lloyd's contingency market. The majority of the division's business is underwritten in London, but PCG has been active in building a local presence in other markets around the world where attractive business opportunities are to be found, a process that continued in 2013.

Political risks and trade credit business grew strongly in the course of the year, accounting for 37% of the division's premiums, or $49.3m (2012: $37.0m). In the trade credit arena, our underwriters focus on non-traditional single buyer transactions. We protect exporters, investors and the banks that finance them against force majeure acts of government such as confiscation, expropriation and nationalisation, as well as embargo and non-payment risks.

The largest global brokers handle many of these major accounts, but in addition there is an active group of smaller, specialist brokers with whom we also have close relationships. High quality service is essential to all brokers in these business lines: claims are infrequent but, when they occur, they tend to be large and complex.

Claims also commonly take some time – up to three years – to materialise after the business is underwritten. In 2013, we were able to release $39.4m from prior year reserves set aside to cover political risks and terrorism claims from Syria, Libya and Nigeria, as well as credit claims from the 2008 financial crisis, that have developed more favourably than our original reserving approach had assumed.

Our terrorism team experienced increased competition in 2013 and premiums remained broadly flat when compared to 2012, despite evidence that terrorism and political violence remain very real threats to business in many parts of the world.

Broadening our product range to help businesses protect their people in the face of these risks, we launched Beazley Flight, which we believe to be the broadest emergency evacuation insurance cover available in the market today. The policy provides expert advisory and evacuation services in three scenarios: a deteriorating political environment that puts a client's employees at serious risk; a natural catastrophe that presents a severe threat; and a medical emergency. Cover can also be included for kidnap and personal accident risks.

The third major segment of PCG's business, contingency insurance, enjoyed a successful year, with weather-related claims – the principal cause of event cancellations – lower than the previous year. Contingency premiums rose 10% to $37.9m, and we were delighted to receive two major insurance industry awards for our handling of the event cancellation claim for the 2012 New York marathon, following superstorm Sandy.

We continued to build our access to business which doesn't come to the London market in 2013. Crispin Hodges moved to Paris from Singapore in April 2012 and swiftly built strong relationships with French brokers based on the quality and speed of underwriting service that Beazley can provide. In 2013, we wrote $5.8m of business in France, little or none of which would have been seen by our London-based underwriters. Mathilde Lecontre, a highly experienced political risks underwriter, joined the team in December.

Growth affords us continuing opportunities to invest in people and we have been able to broaden opportunities for many of our team members in 2013. As is common practice at Beazley, our underwriters and claims professionals work very closely together and individuals sometimes move from one discipline to another. This was the case for Michael Lum, who moved from our claims team in London to join our political risks underwriting team in Singapore.

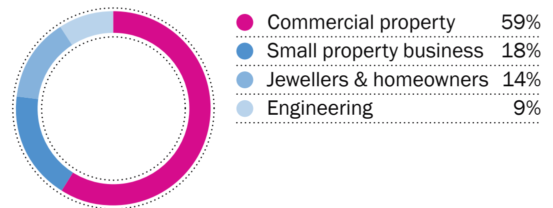
Looking ahead, we will continue to seek attractive growth opportunities at Lloyd's and in other markets, recognising that, while the latter typically take longer to mature, they also help balance the volatility of the large scale business that we underwrite in London.

Property

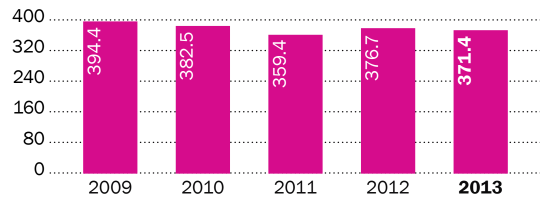
Strong performance across our portfolio in 2013 led to us recording our highest profit since the property division was established in 1992.

Mark Bernacki
Head of property

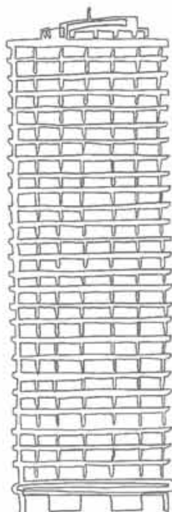
Portfolio mix



Gross premiums written ($m)



$371.4m
Gross premiums written



The property division, led by Mark Bernacki, played a significant role in Beazley's strong performance in 2013, achieving a combined ratio of 84% (2012: 101%) and contributing $65.2m to group pretax profit.

The Lloyd's market has access to a wide range of property business from around the world and over the years Beazley has built a diversified portfolio, including large scale risks underwritten individually on a subscription basis. Beazley was the lead underwriter on 61% of this 'open market' business in 2013, supported by our wordings and claims expertise as well as by our underwriting talent. This leadership position enables us to set terms and conditions for the majority of business we underwrite. Rates rose by 1% on this portfolio in 2013 and net premiums increased by 16% to $139.4m.

Lloyd's is also an important market for small scale property business placed through delegated binding authorities granted to approved Lloyd's coverholders around the world. For Beazley, most of this 'covers' book derives from the US and UK and includes our UK jewellers block account – a sector in which we are a market leader. It also includes $5.9m of business from the small business consortium (SBC), a Lloyd's facility we acquired in 2011. Overall, our covers book grew 24% in 2013 to $59.3m, supported by rate rises of 5%.

Mid sized property business is less frequently seen by underwriters in London. In the US we underwrite this business on a surplus lines basis. We re-engineered the excess and surplus (E&S) business significantly in 2013, to improve profitability. Premiums fell 12% to $76.7m as a result of more selective underwriting; however we do see growth opportunities in this area in the year ahead. In addition, we write a small volume of high value homeowners business in the US, which continued to perform well in 2013.

The final component of the property division's portfolio is construction and engineering business. The large risks – which include some of the world's largest and most complex projects – are underwritten in London. In 2013, we were delighted to join forces with three other Lloyd's market specialists in construction and engineering insurance to form the Construction Consortium at Lloyd's, a facility that enables Lloyd's to compete head to head with the largest non-Lloyd's insurers. Through the consortium, we can offer capacity of up to $166m per project on a probable maximum loss basis.

We also underwrite construction business – commonly known in the US as builders' risk business – through teams located in Atlanta and Singapore. As the US economy continues to gain pace, we expect to see increasing demand for this cover, while in Singapore the main driver of demand is continuing infrastructure investment across South East Asia.

Claims experience across the division was generally benign in 2013, but not universally so, with storm losses in Mexico impacting our Lloyd's open market book. We reserve prudently for catastrophe losses and were able to realise $33.7m in prior year reserve releases in 2013.

Our vision for the property division dovetails with Beazley's corporate vision: we aspire to become, and be recognised as, the highest performing specialist property insurer. This entails strong relationships with the brokers upon whom we rely for business. The expertise and global reach of Lloyd's brokers in particular is critical to our success and we will continue to work hard to foster these relationships, offering decisive underwriting and high quality service to meet their clients' needs.

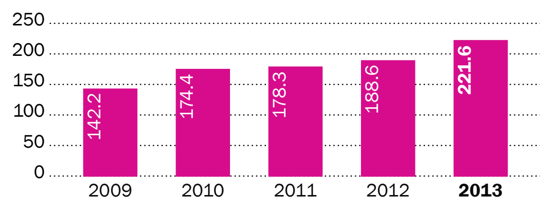
Reinsurance

Record performance with premiums growing 17% supported by new geographical platforms.

Patrick Hartigan
Head of reinsurance

Portfolio mix

Gross premiums written ($m)



$221.6m
Gross premiums written

The reinsurance division, led by Patrick Hartigan, performed very strongly in 2013, achieving a record contribution to group profits on gross premiums that grew 17% to $221.6m. Taking advantage of still attractive premium rates, the team delivered a combined ratio of 49% (2012: 92%).

Premium rates increased modestly at the 1 January, 2013 renewals, confirming our expectation that the heavy losses from 2010, 2011 and from superstorm Sandy in October 2012 would prevent rate declines in what was otherwise a well capitalised reinsurance market. Later in the year, we began to see rates fall, particularly for US business, as new capital from pension funds, among other sources, continued to impact the market. Overall, rate on renewals fell by 3%.

Overall, claims have developed favourably during 2013 and we have only moderate exposure to the floods in Europe during May, the hailstorms in Germany and the floods in Calgary during July. We were also able to release $55.6m from prior year reserves set aside to cover superstorm Sandy, and the 2011 Tohoku Japanese earthquake and Thai floods.

Our focus remains with our core clients in the larger insurance economies of the US, Europe and Japan but we have also expanded our underwriting platform geographically by establishing offices in key reinsurance hubs such as Singapore and Miami. This enables us to get closer to regional clients in Asia and Latin America respectively and provide greater service to the brokers in these areas.

In Singapore, where we began writing treaty business in January, we were able to access good opportunities in Asia, especially in Thailand where rates had been affected by the impact of the catastrophic floods in 2011: the office underwrote $4.5m in 2013, its first year. In Munich we underwrote $22.0m in business from European insurers that we would not normally have seen at Lloyd's.

We continued our geographical diversification in 2013 with the opening of our Miami office, headed by Paul Felfle, in July. Miami has been growing as a hub for Latin American reinsurance business, on which the office will focus.

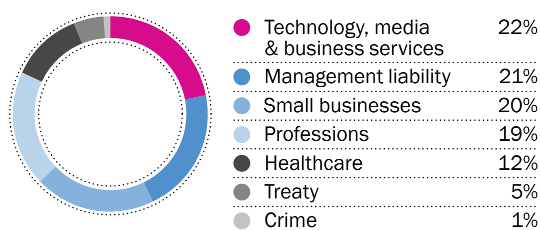
The investment of new capital into the reinsurance market from non traditional sources bears witness to the market's continuing vitality and attractiveness. We continue to focus on gaining better access to our clients through our broader geographical platform and on enhancing the value of our product to our long term clients.

Specialty lines

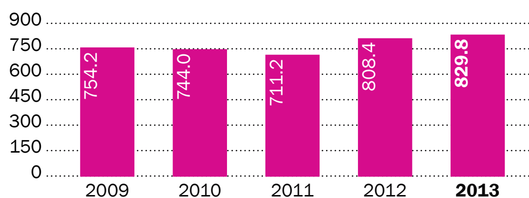
Rate rises and recovering US economy lead to strong growth.

Adrian Cox
Head of specialty lines

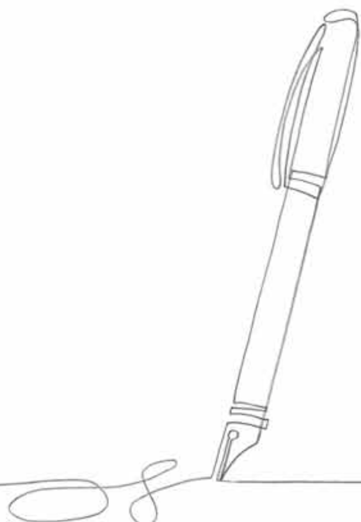
Portfolio mix



Gross premiums written ($m)



$829.8m
Gross premiums written



Beazley's largest division grew strongly in 2013, writing gross premiums of $829.8m (2012: $808.4m), buoyed by a recovering US economy and rates that for the second year in a row rose by an average of 3% across our portfolio.

The division provides management liability, professional liability and medical malpractice insurance to professionals and companies around the world, but with a strong focus on the US – by far the world's largest market for these specialist lines of business.

A recovering US economy in 2013 benefited our business. Demand for the products and services we provide grew steadily, particularly in high growth sectors such as healthcare and technology, towards which Beazley's business is increasingly oriented.

Looking forward, moderate economic growth should also benefit our claims experience. The incentive to sue service providers is higher when companies are under severe economic pressures and tends to abate when conditions improve. That said, our markets remain competitive with an abundance of capacity. The healthy profits that many insurers have made in short tail, catastrophe exposed lines of business, such as commercial property, have enabled some of them to postpone the day of reckoning when they would have to raise rates for the medium tail lines that comprise our book.

Prior year reserve releases contributed $46.6m (2012: $51.5m) to the division's profits in 2013, continuing the moderate decline we have seen since 2011. This is in line with our expectations. We continue to maintain a consistently conservative approach to reserving across the cycle.

Highlights of the past year included continuing growth into the US healthcare industry, measured both in premiums and in the reputation among brokers and clients enjoyed by our team. The most recent addition to the team occurred in October when Laura Sunderlin joined us to grow our life sciences business.

Beazley is now a well respected and well established specialist insurer of healthcare-related liability exposures in the US, with a broad product range. Our focus is clear: we work with healthcare providers that seek to make constant and measurable improvements to patient safety and quality of care and incentivise them to do so. We support them by not only offering tailored insurance cover for professional liability risks, but for management and regulatory liability as well, all underwritten from the same team.

An additional and growing demand is for the prompt and effective handling of data breaches, as well as for third party liability cover. US healthcare providers suffer data breaches very frequently, requiring them to mail breach notifications to more than 120,000 affected individuals every week.

We see continuing growth opportunities in the healthcare industry in the years ahead, not just in the US, where we have developed and honed the service offerings that are now in high demand, but in the UK and elsewhere as well.

Last December, our technology, media and business services, or TMB, team passed an important landmark, assisting a client with its first – but the team's 1,000th – data breach. Demand is strong, not only from healthcare clients but from organisations of all types that hold large volumes of personally identifiable customer information. Beazley is unique among insurers in having a business unit – BBR Services – dedicated exclusively to helping clients handle data breaches successfully. We expect our leadership position in this fast growing market will stand us in good stead as demand continues to grow both inside and outside the US.

Although we expect the US to remain by far our largest market for the foreseeable future, we see continuing growth opportunities elsewhere as well. Many professional services firms – particularly in the sectors we focus on such as law firms and architects and engineers – have been relatively slow to globalise. But the move is now happening in earnest and, as a Lloyd's-based insurer with offices around the world, we are well placed to provide the global cover and service our clients need.

Management liability risks also affect companies on a global basis, but the crucible for these risks remains the US, where the plaintiffs' bar can be relied on to develop new theories of liability to test in court. As the leading insurer of directors' and officers' risks in the London insurance market, we aim to keep pace with the risks our clients face. In particular directors and officers are increasingly becoming involved in investigations and inquiries by regulatory authorities, which can prove extremely costly. In December we launched three new policy wordings to take account of this growing risk.

Financial review
Group performance

The exceptional underwriting result supports our highest ever special dividend.

Martin Bride
Finance director

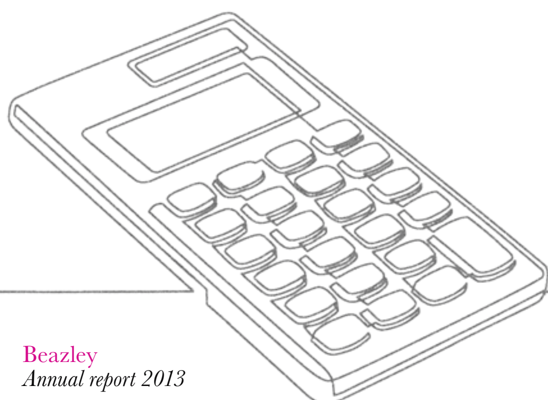
Statement of profit or loss

	2013 $m	2012 $m	Movement %
Gross premiums written	1,970.2	1,895.9	4%
Net premiums written	1,676.5	1,542.7	9%
Net earned premiums	1,590.5	1,478.5	8%
Net investment income	43.3	82.6	(48%)
Other income	36.4	24.7	47%
Revenue	**1,670.2**	**1,585.8**	**5%**
Net insurance claims	719.1	778.4	(8%)
Acquisition and administrative expenses	619.3	563.5	10%
Foreign exchange loss/(gain)	3.0	(11.0)	
Expenses	**1,341.4**	**1,330.9**	**1%**
Share of loss of associates	(0.3)	(0.5)	
Finance costs	(15.2)	(3.2)	
Profit before tax	**313.3**	**251.2**	**25%**
Income tax expense	(49.3)	(36.6)	35%
Profit after tax	**264.0**	**214.6**	**23%**
Claims ratio	45%	53%	
Expense ratio	39%	38%	
Combined ratio	84%	91%	
Rate increase	1%	3%	
Investment return	1.0%	2.0%	

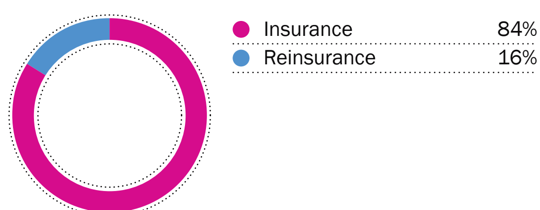
Premiums

Gross premiums written have increased by 4% in 2013 to $1,970.2m. Rates on renewal business on average increased by 1% across the portfolio, with more significant increases in property of 3% and specialty lines of 3%. We have continued to adjust our underwriting appetite in areas where competition is most intense.

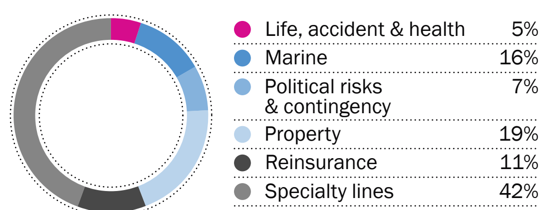
Our portfolio by business division has remained broadly unchanged from 2012. We continue to operate a diversified portfolio by type of business and geographical location, and have grown our business across five of the six divisions during 2013.



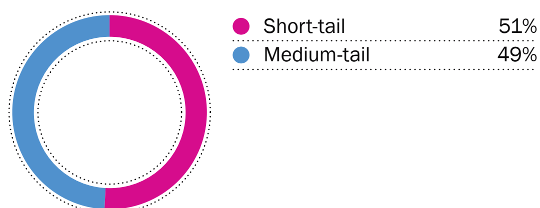
Insurance type



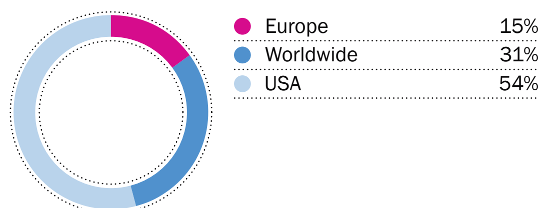
Business by division



Premium written by claim settlement term



Geographical distribution



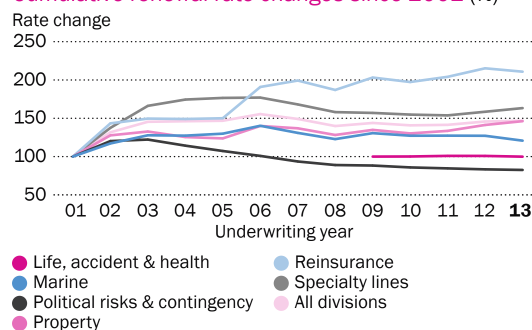
The charts above highlight how we achieve diversification by product mix, geography and type of business.

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 2012.

Retention rates*	2013	2012
Life, accident & health	92%	91%
Marine	86%	87%
Political risks & contingency	67%	71%
Property	74%	79%
Reinsurance	88%	86%
Specialty lines	80%	86%
Overall	81%	84%

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



Rating environment

Premium rates charged for renewal business increased by 1% during 2013 across the portfolio (2012: an increase of 3%). The most notable rate increases were seen in our specialty lines division where they have been at 3% for the last two years; prior to this rate increases had not been seen for six years. Increases were the most significant in professional indemnity for architects and engineers (6%), management liability (6%) and treaty (3%). Other significant rate increases were seen within our property division (3%), with the most significant being in homeowners (6%) and US commercial property (6%). Rate change on renewals in all other divisions were down by 1% in political risks & contingency and life, accident & health, 3% in reinsurance and 5% in marine.

Reinsurance purchased

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.

The amount the group spent on reinsurance in 2013 was $293.7m (2012: $353.2m). The group as a whole is a net buyer of reinsurance and has benefited from falling premium rates on renewals. In addition, specific reductions in reinsurance spend were seen in the property division where we were able to achieve more efficiency in our reinsurance buying through the consolidation of parts of the property and catastrophe programme.

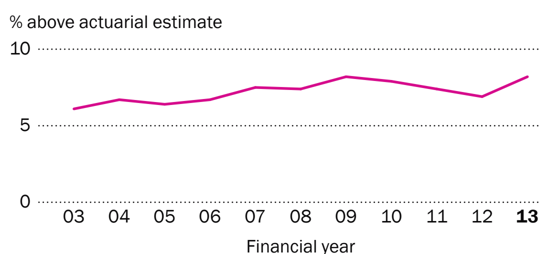
Combined ratio

The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio has decreased in 2013 to 84% (2012: 91%). Our combined ratio in 2013 is lower than the historic average due to relatively low levels of claims activity with no significant catastrophes or adverse development on prior years claims. 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

Overall, claims have developed favourably during 2013, with claims notifications at normalised levels. We have only moderate exposure to the floods in Europe during May and the hailstorms in Germany, as well as the floods in Calgary in July.

Whole account reserve strength within our target range (%)



Reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimates which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 8.2% at the end of 2013 (2012: 6.9%).

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 2013 we were able to make the following prior year reserve adjustments across divisions, with the overall net impact being a release to the group.

	2013 $m	2012 $m
Life, accident & health	(4.6)	0.5
Marine	47.3	27.7
Political risks & contingency	39.4	33.1
Property	33.7	6.2
Reinsurance	55.6	7.0
Specialty lines	46.6	51.5
Total	**218.0**	**126.0**
Releases as a percentage of net earned premium	13.7%	8.5%

The increase in reserve releases was driven by our property and reinsurance divisions which benefitted from the benign natural catastrophe environment in 2012, and favourable development on our reserves set up following the 2010 and 2011 natural catastrophes.

Reserve releases decreased in specialty lines in 2013, which was in line with our expectations. The 2013 releases came mainly from the 2003 through 2006 underwriting years as these years continued their exceptional development.

The political risks and contingency reserve releases were driven by continued favourable development on our financial crisis-exposed 2006 – 2008 underwriting years, while our Marine division benefitted from continued strong performance on all years.

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

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2013 to $619.3m from $563.5m in 2012. The breakdown of these costs is shown below:

	2013 $m	2012 $m
Brokerage costs	337.2	313.0
Other acquisition costs	94.3	95.5
Total acquisition costs	**431.5**	**408.5**
Administrative expenses	187.8	155.0
Total acquisition costs and administrative expenses	**619.3**	**563.5**

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

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

Administrative expenses comprise primarily personnel costs, IT costs, facilities costs, Lloyd's central costs and other support costs. These increased in 2013 due to performance linked remuneration and the write off of renewal rights assets relating to the life, accident & health and specialty lines divisions.

Investment performance

Investment income for the year ended 31 December 2013 was $43.3m, or an annualised return of 1.0%, compared with $82.6m or 2.0% over the same period in 2012. Lower returns, compared with the previous year, were driven by a rise in bond yields in the US, as the federal reserve indicated early in the year that it would taper its quantitative easing programme, finally confirming in December that the tapering would start in 2014. In the UK yields rose, as the economy recovered, and in Europe yields followed the lead set by the US.

Our core portfolio returned 0.5% in 2013. Government bonds, especially in the US, performed poorly (the comparable BoAML 1-5 year government index produced a negative return in 2013), but the credit component of our portfolio performed well, as credit spreads narrowed significantly in 2013. At year end AAA/AA government and agency bonds remained approximately 47% of the overall portfolio, while cash and cash equivalents and credit assets comprised 41%.

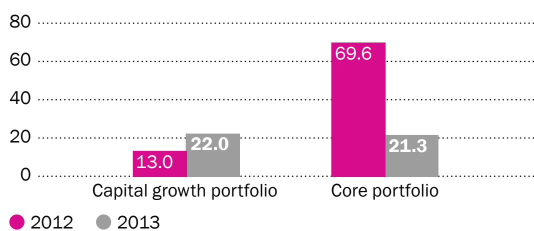
The main challenge to our investment performance in 2013 was US federal reserve policy, and we expect that, if the US economy maintains its upward trend, federal policy and a rising yield environment will continue to make investment conditions challenging for managers of fixed income portfolios in 2014.

The remaining 12% of our portfolio continues to be held in a diversified portfolio of capital growth assets, which returned 4.7% in 2013. This portfolio continues to be managed by our associated company, Falcon Money Management Limited.

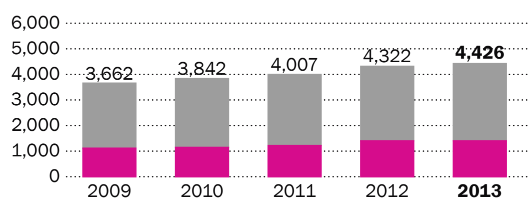
Duration of the fixed income portfolio at year end was 1.8 years (2012: 1.9 years) with a yield to maturity of 1.4% (2012: 1.0%).

We are changing our relationship with Falcon Money Management. In 2014, they will cease managing our core portfolio but will be actively involved in the management of our capital growth assets. This should enable us to lower investment management fees in future periods.

Comparison of returns – major asset classes ($m)



Beazley group funds ($m)



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

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

	31 Dec 2013		31 Dec 2012	
	$m	%	$m	%
Cash and cash equivalents	382.7	8.7	316.5	7.3
Fixed income: sovereign and supranational	2,082.2	47.0	2,430.9	56.2
Investment grade credit	1,351.0	30.5	1,082.7	25.1
Other credit	94.1	2.1	74.1	1.7
Core portfolio	3,910.0	88.3	3,904.2	90.3
Capital growth assets	516.3	11.7	417.7	9.7
Total	**4,426.3**	**100.0**	**4,321.9**	**100.0**

Comparison of return by major asset class:

	31 Dec 2013		31 Dec 2012	
	$m	%	$m	%
Core portfolio	21.3	0.5	69.6	1.9
Capital growth assets	22.0	4.7	13.0	3.1
Overall return	**43.3**	**1.0**	**82.6**	**2.0**

The funds managed by the Beazley group have grown by 2% in 2013, with financial assets at fair value and cash and cash equivalents of $4,426.3m at the end of the year (2012: $4,321.9m). The chart above shows the increase in our group funds since 2009.

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 2013, it was announced that the UK corporation tax rate will be reduced to 20% by 2015. This rate reduction in the UK tax rate has been applied to our UK deferred tax liability brought forward. This reduction in our deferred tax liability has offset our current year tax charge to create an effective tax rate of 15.7% for the year.

Balance sheet management

Summary statement of financial position

	2013 $m	2012 $m (restated)**	Movement %
Intangible assets	91.6	115.1	(20%)
Reinsurance assets	1,178.2	1,187.3	(1%)
Insurance receivables	617.7	578.0	7%
Other assets	270.8	246.6	10%
Financial assets at fair value and cash and cash equivalents	4,426.3	4,321.9	2%
Total assets	**6,584.6**	**6,448.9**	**2%**
Insurance liabilities	4,577.3	4,483.8	2%
Financial liabilities	274.9	315.0	(13%)
Other liabilities	393.7	445.6	(12%)
Total liabilities	**5,245.9**	**5,244.4**	**–**
Net assets	**1,338.7**	**1,204.5**	**11%**
Net assets per share (cents)	**266.5c**	**240.5c**	**11%**
Net tangible assets per share (cents)	**248.3c**	**217.5c**	**14%**
Net assets per share (pence)	**160.6p**	**147.5p**	**9%**
Net tangible assets per share (pence)	**149.6p**	**133.4p**	**12%**
Number of shares*	**502.2m**	**500.9m**	**–**

* Excludes shares held in the employee share trust and treasury shares.
** The restatement is in respect of the change to IAS 19. For further information,see note 1 in the 'notes to the financial statement' section.

Intangible assets

Intangible assets consist of goodwill on acquisitions of $62.0m, purchased syndicate capacity of $10.7m, US admitted licences of $9.3m and capitalised expenditure on IT projects of $9.6m. During the year renewal rights in relation to specific business within the specialty lines and life, accident and health divisions have been fully impaired by $11.5m; therefore at 31 December 2013 there is no carrying value remaining in respect of renewal rights within intangible assets. In addition, amortisation on IT development costs and renewal rights has contributed to the reduction in the group's intangible assets.

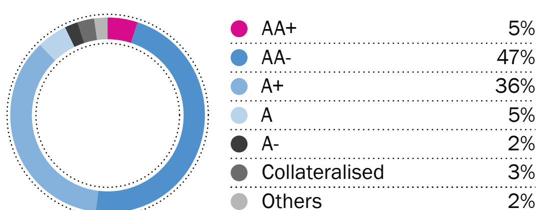
Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $978.4m, and the unearned reinsurance premiums reserve of $199.8m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $253.7m and an actuarial estimate of recoveries on claims that have not yet been reported of $724.7m. The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium-tail). The chart on page 41 shows the profile of these assets (based on their S&P rating) at the end of 2013;
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by our reinsurance security committee and credit control committee.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2013 our provision had reduced to $14.5m (2012: $18.0m) in respect of reinsurance recoveries, following a partial recovery during the year in relation to Lehman Re.

Reinsurance debtor credit quality



Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2013 was $617.7m, an increase of 7% over 2012 ($578.0m). We continue to outsource the collection of our Lloyd's broker premium balances to Randall and Quilter Investment Holdings plc, which operates within the Lloyd's market as a specialist credit controller.

Other assets

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

- financial assets at fair value of $4,043.6m;
- cash and cash equivalents of $382.7m;
- deferred acquisition costs of $206.0m;
- profit commissions of $11.5m and other balances of $17.0m receivable from syndicate 623; and
- deferred tax assets available for use against future taxes payable of $8.7m.

Insurance liabilities

Insurance liabilities of $4,577.3m consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our UPR has increased by 7% to $956.8m. 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 1% to $3,620.5m.

Financial liabilities

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

- in 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that is payable in 2026 and callable in 2016. In 2013 we bought back an additional £26.2m (2012: £47.3m). The initial interest rate payable is 7.25% and the nominal value of this debt as at 31 December 2013 is £76.5m (2012: £103m);
- a US$18m subordinated debt facility raised in 2004. This loan is also unsecured and interest is payable at the USD London interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009; and
- during September 2012 we issued a sterling denominated 5.375% retail bond under a £250m euro medium term note programme which raised £75m for the group and is due in 2019. This diversified the source and maturity profile of the group's debt financing.

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

Capital structure

Capital structure

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

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

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

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

The group actively seeks to manage its capital structure and continued to reduce its cost of debt in 2013. Our preferred use of capital is to deploy it on opportunities to underwrite profitably. However there may be times in the cycle when the group will generate excess capital and not have the opportunity to deploy it. At such points in time the board will consider returning capital to shareholders.

In 2013 Beazley acquired 5.0m of its own shares. These were acquired at an average price of 230p and the cost to the group was $17.7m.

Our funding comes from a mixture of our own equity of $1,338.7m alongside £76.5m of tier 2 subordinated debt, $18.0m subordinated long-term debt, a £75m retail bond and an undrawn banking facility of $225.0m as detailed on page 160.

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

	2013 $m	2012 $m
Sources of funds		
Shareholders' funds	1,338.7	1,204.5
Tier 2 subordinated debt	127.0	166.3
Retail bond	124.5	122.3
Long-term subordinated debt	18.0	18.0
	1,608.2	1,511.1
Uses of funds		
Lloyd's underwriting	935.4	876.0
Capital for US insurance company	107.7	107.7
	1,043.1	983.7
Surplus	**565.1**	**527.4**
Unavailable surplus*	(150.8)	(145.0)
Fixed and intangible assets	(97.6)	(122.1)
Available surplus	**316.7**	**260.3**
Unutilised banking facility	**225.0**	**225.0**

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

Individual capital assessment

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

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

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

The increase in our funds at Lloyd's from £558.0m to £563.0m is in proportion to the increase in business planned and the changes in the economic conditions. These numbers are presented in the table on page 42 in US dollars, being $935.4m and $876.0m for 2014 and 2013 respectively, which have been translated at the spot exchange rate at reporting dates.

Solvency II

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

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

During 2013, Beazley has continued to embed the principles of Solvency II and the use of our internal model in our business. As well as providing the basis for Lloyd's capital setting, our internal model is used extensively to inform risk management, capital allocation and decision making both on a routine and an ad hoc basis. In December, Lloyd's confirmed that it assesses us as continuing to meet the principles of Solvency II as currently drafted.

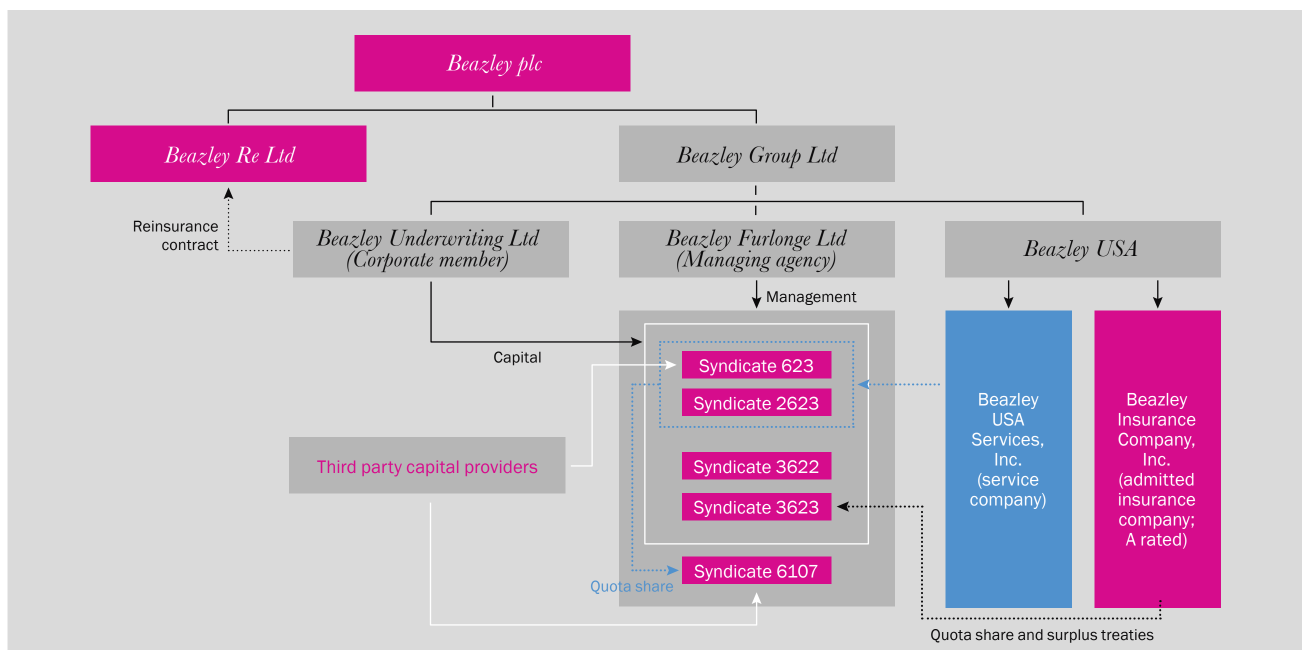
The Solvency II programme continues to oversee the development of our capability and engagement with regulators as they complete their assessment of our model and our overall readiness for Solvency II. The Central Bank of Ireland has continued to progress its pre-application review of our model which will be used for both individual and group capital setting purposes.

Following the provisional agreement which has been reached between the European Parliament, the European Commission and European Council on the Omnibus II Directive, we now look forward with a greater degree of certainty to the recently revised implementation date for Solvency II of 1 January 2016. The European Insurance and Occupational Pensions Authority's guidelines for the preparation of Solvency II provide for a lead in to implementation over the next two years. The work which we have already done in our programme to date leaves us well placed to respond to this final phase of Solvency II preparation.

Group structure

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

- Beazley plc – group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the five syndicates managed by the group (623, 2623, 3622, 3623 and 6107);
- Beazley Re Limited – reinsurance company that accepts reinsurance 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.



Operational update

Our operations are increasingly becoming a competitive advantage.

Ian Fantozzi
Chief operating officer

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

We have been able to deliver excellent support for our business through the way we maintain consistency in operational standards throughout the group. This ranges from the Beazley look and feel across all our offices, to the rigour with which our systems capture accurate data to provide insightful reporting to support business decisions.

Beazley is a specialist insurer and our success relies heavily upon the expertise of our underwriters and their ability to move quickly to meet client needs. A vital role of operations is to give our underwriters and claims professionals the tools and the support to do this job.

In order to achieve this, we continue to implement our operations strategy. This has five areas of focus:

Supporting growth initiatives – providing scalable and responsive operational support

Beazley has four strategic growth initiatives – at Lloyd's, in the US, in Europe, and in Asia Pacific. We continue to launch attractive new product lines – for example, Beazley Flight, and tailor coverage to best meet our clients' needs, by offering packaged products such as Beazley Breach Response and our healthcare solutions.

In 2013, we made great progress in standardising business processes and consolidating underwriting IT platforms for our business at Lloyd's, in the US and globally outside the US. Our systems and processes now provide better support for new product roll outs and enable greater ability to scale operational support for business growth opportunities. The investments that we have made to our processes and IT platforms will be key to supporting Beazley's growth in the years to come. An area of particular focus in 2013 has been the upgrading of our IT infrastructure to increase network bandwidth for all our offices and to more efficiently manage our software through a move towards thin client computing.

It is important to provide a high quality working environment that is conducive to team working and thought leadership. Our offices are open plan, bright and airy, with a style and consistency that support our global brand. We strive to get the best quality working space at the best lease and facility cost. In 2013, we opened new offices in Miami and Dallas, further improving market access for our underwriters geographically.

Ensuring sustained profitability – maximising economies of scale through cost efficient processes and global resourcing

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

In pursuit of greater efficiency and consistency of operational service we continue to make great progress in centralising operations support or outsourcing where this brings further value. We want to make sure that operations and processing are done by appropriately skilled people, at the most cost effective location, whilst providing the best service levels. In 2013, we centralised the back-office support for our property division in the US and brought its products onto our strategic IT platform, BeazleyPro. This change had the dual benefit of reducing operational expense and enabling a more scalable and resilient support model for future business growth.

Operational update *continued*

Operating within our agreed risk appetite – implementing consistent governance and service ownership groupwide

Effective risk management, described in more detail on page 47, requires clear visibility of the level of operational risk we maintain. Critical to supporting an effective control environment is consistency of ownership for operations support and the provision of management information.

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

In 2013, we implemented a new enterprise risk management system. Coupled with new reporting capability from our strategic data warehouse, Beazley Intelligence, we can now more rapidly provide risk profiles for the group across a broad range of reporting criteria.

Enabling product and service innovation – supporting innovation and providing tools that differentiate our service

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

A major focus for us in 2013 has been strengthening our ability to take new product ideas more quickly from the drawing board to the underwriting stamp. We have built dedicated teams in both London and the US to coordinate the product innovation process, and then to bring all the operational components together for a successful market launch.

We continue to implement new technology to better support the use of mobile and tablet devices, reducing our reliance on paper and enabling better communications for our teams on a global scale. This technology has been making it easier for our underwriters to transact business. We have also been able to make all of our corporate governance meetings paperless.

Beazley Intelligence, our strategic data warehouse solution, continues to enable us to consolidate our trading data into a single source of management information. In 2013, we successfully migrated our US platform data into Beazley Intelligence. In combination with data gathered through our customer relationship system, we have started to gain valuable insights which help us further develop of our US distribution strategy.

Managing for performance – developing our talent and sourcing operational skills needed for a high quality service

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

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

Looking ahead

It is most important that we maintain consistency in our approach to delivering high quality service and continually improving operational efficiency. The above five areas are core to our operational strategy, and we will continue to pursue these – creating competitive advantage through operational service provision and in our ability to react quickly and efficiently to new business opportunities.

Risk management

The management of risk by our employees has been a key ingredient in the group's success in 2013.

Andrew Pryde
Chief risk officer

2013 in review

Throughout 2013 all entities in the Beazley group have operated within risk appetite and there have been sufficient resources, both financial and personnel, to deliver the group's business plan.

The risk management framework, which was revised in 2010 in preparation for the implementation of Solvency II, continues to operate effectively and has provided timely and trusted risk information to the group's boards. There have been no major changes to the risk management framework in 2013, but it has evolved as required in order to keep pace with changes in the group's risk profile and the environment within which the group operates. In particular, the theme this year has been to focus on further improving board and committee risk reporting.

The group's boards and members of the executive committee met in May 2013 and, amongst other topics, discussed emerging and strategic risks. These were summarised into five categories, namely; socio-political risks, market conditions, distribution, talent and regulation. Developments in these areas, along with activity undertaken by Beazley, have been reported in the quarterly Own Risk and Solvency Assessment (ORSA) report throughout the year.

The quarterly ORSA has been a feature at Beazley boards since 2010 and has become a valuable tool for the directors to understand current and prospective risks and capital requirements, and has helped the boards steer the strategic direction of the group.

Another report that has developed into a valuable risk management tool is the risk management report to the remuneration committee. In this report, the design of the remuneration structure is reviewed from a risk perspective to test that it does not inadvertently reward inappropriate behaviour. The remuneration related calculations are also reviewed to confirm they are in line with the remuneration policy in light of the risk taken and results produced.

During 2013, the board performed a review of Beazley's product led operational structure from a risk perspective and has confirmed that it remains appropriate. The board also reviewed the oversight of Beazley's global offices in the context of a product led, rather than a geographical, operational structure. Although some enhancements were introduced subsequent to the review, the board has confirmed that this governance framework is operating in line with expectations.

Whilst the risk and capital teams were brought together in 2010 to better align risk assessment and risk quantification to drive improvements in decision making, Beazley's internal model has been used extensively by the business since it was introduced in 2004. In 2013, the internal model has been used to optimise further the reinsurance structure and to assess the appropriateness of natural catastrophe model changes and how the risk budget should be adjusted. Beazley's internal model continues to be tested by an independent and external validator and the results of that work have been reported to the relevant boards within the validation report.

Risk training continues to be provided to the business with a tiered educational programme. In 2013, the second e-learning module, which is a scenario based approach to considering risk issues, was completed by all employees.

As in previous years, members of the risk management department have visited most Beazley offices to meet with members of staff. A theme from these office visits is that there is a consistent Beazley culture across the organisation within which the careful consideration of risk and reward is an important part. These risk behaviours have been a substantial ingredient in the group's success in 2013.

Risk management philosophy

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

Risk management strategy

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

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

- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

In addition, the following risk management principles have been adopted:

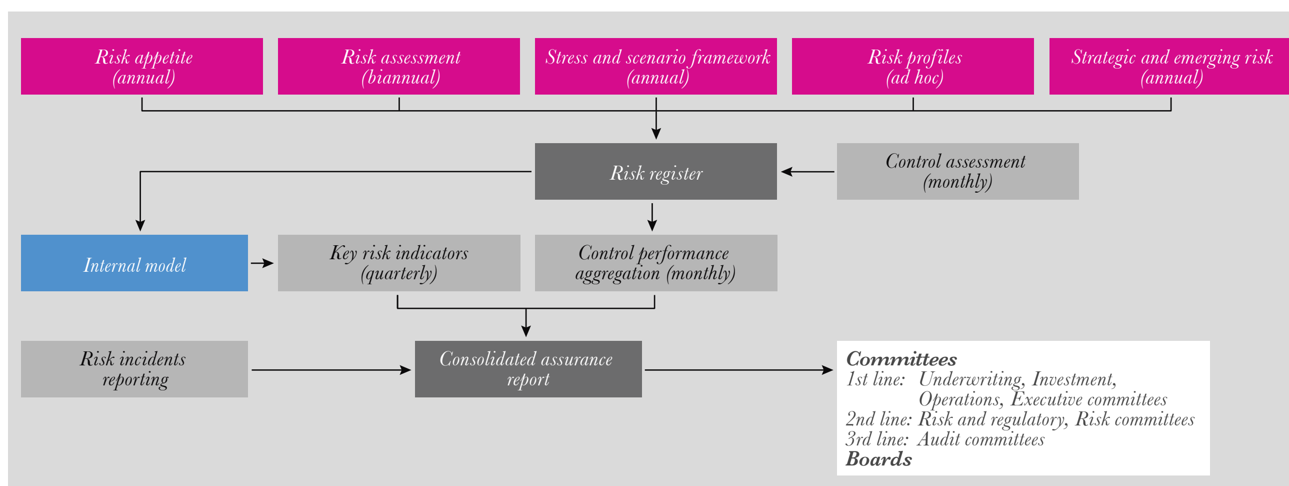
- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- it is a core capability for all employees;
- risk management is embedded in day-to-day activities;
- there is a culture of risk awareness, in which risks are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

Risk management framework

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

Business Risk Management *Risk Ownership*	*Risk Management* *Risk Oversight*	*Internal Audit* *Risk Assurance*
– *Identifies risk* – *Assesses risk* – *Mitigates risk* – *Monitors risk* – *Records status* – *Remediates when required*	– *Are risks being identified?* – *Are controls operating effectively?* – *Are controls being signed off?* – *Reports to committees and board*	– *Independently tests control design* – *Independently tests control operation* – *Reports to committees and board*

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (57 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley plc board, and the control environment that is operated by the business to remain within the risk appetite. The following diagram illustrates the components of the risk management framework.



A suite of risk management reports are provided to the boards and committees to assist the senior and executive management to discharge its decision making responsibilities.

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

The risks to financial performance

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

Insurance risk

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

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

Strategic risk

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

- **Shareholder expectation:** There is a risk that Beazley does not meet its shareholders' expectations. This is mainly mitigated through regular and transparent communication.
- **Strategic decisions:** The group's performance would be affected in the event of making strategic decisions that do not add value. The group mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately thirty senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which Beazley operates, thereby delaying the timing of the strategy.

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

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

Other risks

The remaining six risk categories monitored by the board are:

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

Corporate social responsibility

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

In continuing to build Beazley as a premier risk-taking business, we take our corporate, social and environmental responsibility seriously. We constantly consider the ethical implications of how we operate and put policies and procedures in place to sustain our commitment.

Intrinsic to our culture is an ethical approach to business conducted by and towards all our stakeholders. The values that form the essence of our brand and our working culture are professionalism, integrity, effectiveness and dynamism. Our code of ethics comprises the staff handbook, the handling of personal data, whistle blowing, and financial crime policies. Our conflicts of interest policy provides clear guidance to staff on areas such as inducements and handling sensitive data.

Day of service

For the third year in a row, Beazley employees across all US offices hosted a Day of Service where employees could directly contribute time to helping address the issues of homelessness and hunger in the communities in which we work. Over 75 employees from our Farmington (below) and other offices volunteered at food banks, soup kitchens, shelters, meal delivery services and more in their local communities.

During 2012 we undertook a detailed review of our corporate social responsibility strategy, encompassing the full range of our philanthropic, volunteering and environmental activities and programmes. Our aims were to:
- increase the value we provide for our beneficiaries;
- expand awareness within Beazley of the ways in which employees can contribute to local communities, as well as to broader philanthropic causes; and
- measure the impact of our contributions to ensure that we make best use of available resources.

Corporate social responsibility is a broad term, addressed at Beazley through a variety of entities:

CSR segment	Where Beazley addresses these topics
Environment	responsible business committee – sustainability
Community	responsible business committee – community and charity
Marketplace, influence	responsible business committee – marketplace
Marketplace, ethical service	broker relations and treating customers fairly within compliance
Diversity/equal opportunity	talent management
Health and safety	Beazley shared services

The restructured responsible business committee, headed by Clive Washbourn, will focus on sustainability, community and charity and our influence in our marketplace. The other segments will be implemented elsewhere.

Intrinsic to our culture is an ethical approach to business conducted by and towards all our stakeholders. The values that form the essence of our brand and our working culture are professionalism, integrity, effectiveness and dynamism.

Environment – sustainability

We are both users of the environment and insurers of the impact of extreme weather conditions, so understanding and minimising our own impact on the earth is important to us as a company and as individuals. We seek to reduce not only our own impact on the environment, but also that of our suppliers by selecting organisations that adhere to high environmental standards. One of our nominated charities is the Conservation Fund.

Community and charity

The community element of responsible business has many facets. It can include funding, sharing of skills, offering gifts in kind, and giving local people employment opportunities.

Beazley supports the Lloyd's Community Programme, which provides a framework for Lloyd's-based businesses to support a number of activities in east London, including reading and number partnering. (Our partner school is Canon Barnett Primary School.) Many teams within Beazley contribute to their local communities through volunteering days and all employees are able to maximise their donations to charity through the payroll giving scheme.

Marketplace

This is a new focus for Beazley. The aim is to recognise and enhance the positive influence our interactions as a business have on the wider community. A good example is the quality indicator return premium (QUIRP) programme run by our hospitals professional liability team. Hospitals that make measurable improvements in quality and patient safety metrics are reimbursed a proportion of their premiums.

Review of 2013 activities

Environmental responsibility

Beazley strives to achieve environmental best practices in the management of its global offices and in the acquisition of its goods and services. We continue to evaluate the environmentally responsible initiatives of our suppliers, encourage the use of public transport and video conferencing, monitor our carbon footprint and work towards reducing the latter where possible. In addition to measures we have put in place historically, in 2013 we made the following progress:

Offices and furniture

Beazley works closely with its providers of office furniture and any refits to monitor savings and ensure that environmentally friendly materials and products are utilised whenever feasible. During the RFP process Beazley carefully evaluates and compares each supplier's 'green' initiatives and gives appropriate weighting to the quality and consistency of a supplier's program when making an award.

The Farmington office in Connecticut is due a refurbishment in early 2014 and Beazley will be removing and donating the used ancillary furniture.

In the UK head office, Beazley has increased its virtual conferencing facility, allowing for additional meetings with all locations and thus reducing the necessity for additional travel. Some US offices are also increasing their virtual conferencing facilities to allow for more meetings.

Office supplies and printing systems

By using recycled paper, we saved 315 trees and economised on our greenhouse gas emissions in 2013. We use multi-function print devices where possible to reduce energy consumption and storage space. In 2013, in the London office we installed automatic handtowels in all rest rooms, decreasing waste paper output. In the US, increasing glass and mug use in pantries not already participating in this initiative, example San Francisco, helped us to reduce paper cup use.

Travel

We use Climatecars, who provide electric and hybrid vehicles, as the preferred car transportation company for our UK head office and we have installed a permanent charging point in our basement for them. Beazley US does not have a company-wide car service. Employees are encouraged to use public transport for their work commute, which is paid for as part of our employee benefits package.

We also track our carbon emission reductions from travellers who voluntarily downgrade from a higher cabin class on flights. In 2013, this occurred on transatlantic flights resulting in a saving of over 175 tonnes of CO_2 which is calculated at 42% of emissions on these designated flights.

Note: The greenhouse gas (GHG) emissions reported are for the year 2012. This reflects the reporting cycle, whereby statistics for 2012 become available in 2013. Similarly, 2013 emissions will be reported in 2014. All GHG reports produced by Beazley are externally verified by appointed consultants.

Poppy appeal

Every year our London colleagues fundraise for the Royal British Legion to support the British armed forces past and present, and their families. This year we were honoured to fundraise on Poppy Day alongside serving members of the armed forces, raising over £3,000 for the charity.

GHG report for the UK head office for 2012 emissions

Beazley submitted case studies to Climatewise detailing the environmental measures taken. Commercial management produced a report which indicated a 7% emissions increase based on Scope 1 and Scope 3 GHG emissions. The increase is attributable to expansion of reporting scope including emissions associated with travel using a second taxi company (not previously reported).

GHG report for US for 2012 emissions

In the US we report emissions for our three main offices in Farmington, Boston and New York. In 2012, there was a 3% increase in emissions based on Scope 2 and Scope 3 GHG emissions. This is largely attributable to increased electricity consumption and increased travel by leased cars due to a higher headcount.

GHG reporting for rest of world

The emissions reported above account for 98% of Beazley employees in the UK and 67% of Beazley employees in the US. For our offices located elsewhere, due to the size and nature of these leased premises it is not practical to measure GHG emissions.

Environmental policy

Beazley will produce an environmental policy in 2014 with achievable targets to decrease its impact on the environment through the business activities and environmental measures and initiatives.

Landfill

Landfill remains the responsibility of the landlord, but Beazley actively participates in recycling at all its global offices and works alongside the landlord's CSR policy (where published) to achieve objectives.

Community and charity

We are passionate about supporting and getting involved in our communities.

2013 has been a year of focus and action for our community and charity committees. We've joined up globally and expanded our UK committee to become the UK and Rest of World (RoW) community and charity committee, in addition to our US committee, to ensure we are involving all our people and communities around the world. These committees are made up from people across the business and now have a global remit which is to:

Encourage and support Beazley people to participate in charitable and community activities:

- we've recognised the fundraising efforts of our people and supported our charity partners by donating over $250,000 this year;
- our people have spent over 300 hours working and helping our communities; and
- we've climbed three peaks, baked cakes, run en masse, mentored children in our communities and run through the night to name but a few employee initiatives.

Manage Beazley's corporate charitable partnerships

This year we've supported Feeding America, the Conservation Fund, Concordia, Trees for Cities and Rwanda Aid as our chosen charitable partnerships. We've supported them through corporate funding as well as our people's volunteering efforts to raise additional funds for them.

Oversee Beazley's response to large scale disasters

Beazley people are committed to supporting communities affected by unexpected large scale disasters. We gave to the Red Cross when superstorm Sandy hit New York and our people worked in their communities to help their neighbours get back on their feet. We also donated to the counselling and support services which cared for the community after the Newtown, CT school shootings.

Specifics:

Beazley engages in a number of charitable and volunteering activities across all our offices through employee involvement, direct financial donations and fundraising drives and events. Each employee can take up to two days per year to participate in charitable and local community initiatives.

Our US community and charity committee, chaired by Bryan Falchuk, supported a number of activities and causes with a budget of $100,000. Over 100 employees received donations for their efforts, totalling over $30,000. Additional support went to Feeding America, the American Red Cross and several cancer-related causes including Beazley's global support of Movember. Employees from across the US set out to climb the three tallest mountains in the northeastern states in three days, raising nearly $25,000 for the Conservation Fund in the process. Additionally, every office hosted a Day of Service in September where employees could directly contribute time to helping local communities.

Over 75 employees volunteered their time at a variety of charities focused on the causes of homelessness and hunger in Boston, Hartford, New York, Atlanta, Chicago, Philadelphia and San Francisco. We plan to keep building our momentum and running initiatives such as our month of service to ensure we are making a positive impact.

Our UK & RoW community and charity committee created a fundraising calendar this year to ensure we were getting involved in our communities and supporting our charities on a regular basis.

In September we supported Macmillan Cancer Support's World's Biggest Coffee Morning, raising over £400 to help people affected by cancer, with colleagues donating cakes that could be purchased to enjoy over a coffee break.

We held our first ever Beazley Christmas market, selling products from our charitable partner, Rwanda Aid, along with other items donated by our employees. Our sponsorship with British Fencing even came into play, with an agility test that colleagues could donate to take part in.

We're proud of our association with the Royal British Legion and donated over £3,000 with serving members from the Armed Forces selling poppies in our London office.

With a budget of £100,000, the UK and RoW community and charity committee financially supported each of our charitable partners; Rwanda Aid, Concordia and Trees for Cities and match funded the amazing efforts of our people raising funds for charities close to their hearts.

Globally more than 90 colleagues supported Movember, growing or wearing moustaches to support men's health causes. All employees were encouraged to vote on who they thought would have the best moustache by the end of November, for a donation to Movember. In total, Beazley raised over $40,000 globally for Movember.

Marketplace, ethical service

Treating customers fairly

The Beazley group approaches all dealings with customers with regard to:

- general good business practice with strong standards of fair dealing;
- maintaining positive, continuing commercial relationships with our policyholders and their brokers and professional advisers; and
- delivering high customer service standards compliant with applicable regulatory requirements and other relevant standards.

Beazley's general approach, to ensure the fair treatment of customer, has always been an intrinsic part of the way we do business, and continues to be so.

A Beazley groupwide 'treating customers fairly' (TCF) policy and training programme exists to communicate requirements throughout the group.

Broker relations

Strong trust-based relationships with brokers are fundamental to the success of our business and we are constantly looking for new ways to improve access to our underwriters for brokers, and opportunities to strengthen our existing broker relationships. Beazley's dedicated broker relations team focuses on acting as a customer service contact point, removing any roadblocks and providing relationship management at a high level.

Workplace diversity/equal opportunity

We are an equal opportunities employer, ensuring we offer equal treatment to employees and prospective employees. We are proud of the fact that there are many different personalities working here and this diversity is the key to our global growth and success. We treat all employees fairly, with dignity and respect.

Our aim is to build on our achievements so far by actively attracting and developing people with different experiences, backgrounds and lifestyles, with different skills and perspectives, to join and lead our business: a workforce that mirrors the diversity of our customers and the communities where we work around the world. We want to build an even more open and collaborative culture, generating contagious energy and a real sense of creativity. We do this by supporting our managers and people, giving them the tools and opportunity to network and progress on their career/life path whilst continually building a diverse pipeline through our recruitment activities.

Our focus this year and into 2014 is to engage our managers so they become owners and advocates of diversity at Beazley. We believe that by capturing our managers' imagination they will be able to lead and support our initiatives to ensure Beazley remains a diverse and great place to work.

Health and safety

We take the health and wellbeing of staff seriously and are committed to ensuring all staff receive the best standard of benefits and enjoy supportive working conditions.

Employees are expected to take reasonable care of their own health and safety at work as well as those of others, and to co-operate with management to create a safe and healthy working environment. All employees, contractors and visitors are subject to induction, training and supervision in aspects of health and safety and additional training in ergonomics and fire safety awareness is provided. All health and safety matters are communicated via noticeboards, email memos, the intranet and safety representatives. Management of health and safety is both internally and externally audited for compliance against best practice. Quarterly meetings include staff from all levels who feed back on any issues.

Overall responsibility for the management of health and safety at Beazley rests with the chief operating officer.

We encourage a work/life balance at Beazley and monitor our employees for signs of stress. Our benefits package along with sickness and stress management policies are based around employee wellbeing. Beazley employees are provided with private medical insurance and eye tests, a subsidy towards gym or health club membership, along with lunch and fruit as part of the core benefits. We also take stress management seriously and provide managers with training in identifying and managing stress. The services of a confidential and impartial employee assistance programme are also available to employees along with quiet/contemplation rooms. We monitor sickness and absenteeism and support our employees with enhanced sick pay, additional holidays and income protection in cases of extended sickness.

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2013.

Principal activity

Beazley plc is the ultimate holding company for the Beazley group, a global specialist risk insurance and reinsurance business operating through its managed syndicates 2623, 6107, 3623, 3622 and 623 at Lloyd's in the UK and Beazley Insurance Company, Inc., a US admitted carrier, in the US.

Review of business

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

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2013 amounted to $313.3m (2012: $251.2m).

The directors announce both a second interim dividend of 5.9p per ordinary share (2012 second interim dividend: 5.6p) and a special dividend of 16.1p per ordinary share (2012 special dividend: 8.4p per ordinary share). These dividends, together with the first interim dividend of 2.9p per ordinary share (2012 first interim dividend: 2.7p), give a total of 24.9p (2012: 16.7p).

The aforementioned second interim and special dividends will be paid on 28 March 2014 to shareholders on the register on 28 February 2014 (save to the extent that shareholders on the register of members on 28 February 2014 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).

Directors

The directors of the company at 31 December 2013, who served during the year and to the date of this report, were as follows:

Dennis Holt	non-executive chairman
David Andrew Horton	chief executive
George Patrick Blunden	non-executive director
Martin Lindsay Bride	finance director
Adrian Peter Cox	director
Angela Doreen Crawford-Ingle	non-executive director (appointed 27/03/2013)
Jonathan George Gray	director (resigned 30/06/2013)
Alexander Gordon Kelso Hamilton	non-executive director (resigned 27/03/2013)
Neil Patrick Maidment	director
Padraic Joseph O'Connor	non-executive director
Vincent Joseph Sheridan	non-executive director
Kenneth Paul Sroka	non-executive director
Rolf Albert Wilhelm Tolle	non-executive director
Clive Andrew Washbourn	director

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

Details of directors' service contracts and beneficial interests in the company's share capital are given in the directors' remuneration report. Biographies of directors are set out in the 'board of directors' section of this report.

Corporate governance

The company's compliance with corporate governance is disclosed in the corporate governance statement on pages 65 to 72.

Going concern

A review of the financial performance of the group is set out on pages 34 to 44. The financial position of the group, its cash flows and borrowing facilities are included therein.

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

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages 52 to 56.

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

Risk management

The group's approach to risk management is set out on pages 47 to 51 and further detail is contained in note 2 to the financial statements on pages 119 to 132.

Substantial shareholdings

As at 4 February 2014, the board had been notified of, or was otherwise aware of, the following shareholdings of 3% or more of the company's issued ordinary share capital:

	Number of ordinary shares	%
Invesco Perpetual	102,606,521	19.7
MFS Investment Management	28,574,723	5.5
Jupiter Asset Management	25,454,176	4.9
Dimensional Fund Advisors	22,181,597	4.3
Standard Life Investments	20,017,469	3.8
Legal & General Investment Management	18,768,671	3.6
Norges Bank Investment Management	18,389,609	3.5
Schroder Investment Management	16,159,616	3.1

Annual general meeting
The notice of the annual general meeting to be held at 12.00hrs on Wednesday, 26 March 2014 at 2 Northwood Avenue, Santry, Dublin is set out in the circular to shareholders.

At 5 February 2014 there are outstanding options to subscribe for 19.6m ordinary shares pursuant to employee share schemes, representing 3.8% of the issued share capital. If the authority to purchase shares were exercised in full, these options would represent 3.6% of the enlarged issued share capital.

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

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

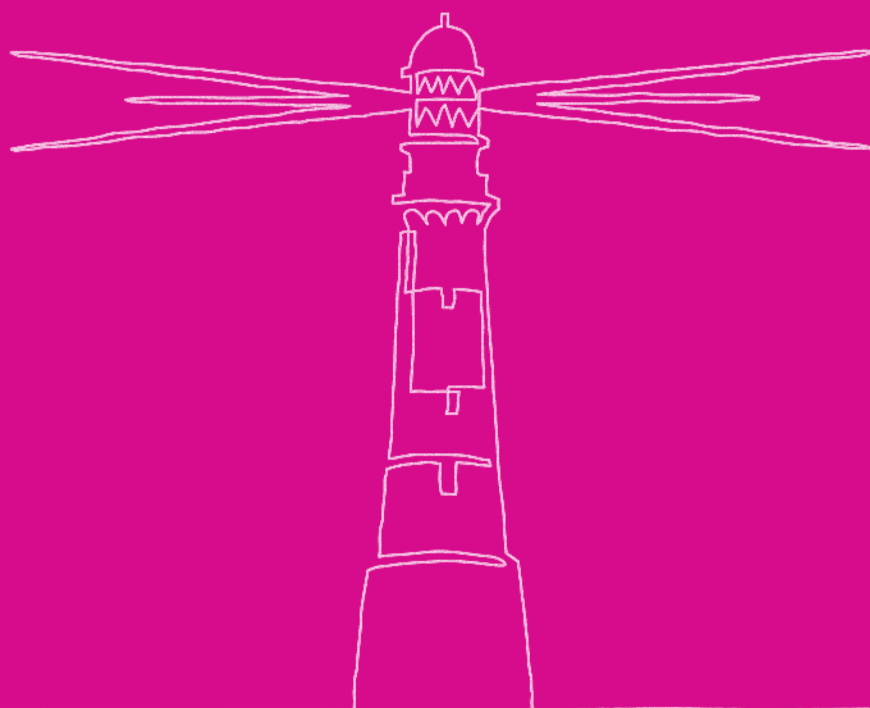
By order of the board

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

5 February 2014

Governance

61 Letter from our chairman
62 Board of directors
64 Investor relations
66 Statement of corporate governance
73 Letter from our chairman of the remuneration committee
74 Directors' remuneration report
99 Statement of directors' responsibilities
100 Independent auditor's report



Letter from our chairman

There is, and historically there has been, throughout the company and the group, a commitment to high standards of corporate governance. The group's system of governance has been designed to establish, implement and maintain effective cooperation, internal reporting and communication of information at all relevant levels within the group. The board's role is to set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board met regularly throughout the year and in May we held a board strategy day and discussed and challenged the group's strategy and five year business plans.

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

The group recognises the value from regularly reviewing the effectiveness of the board and, following last year's external assessment, we conducted a self assessment in 2013 through a questionnaire. Whilst there are no matters of significance to report, we have developed some actions to support further improvement in our governance processes. We ensure directors continually update their skills through individual development plans and board training.

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

During 2013 we welcomed Angela Crawford-Ingle to the board and she assumed the chair of the audit and risk committee from Gordon Hamilton, who left the board in March. Details of the search process are set out in the nomination committee report. We would like to thank Gordon for his valued contribution during his time on the board.

The provision of timely, accurate and appropriate information to the board and committees is key to good governance, and during the year we implemented electronic board management information. This ensures that information is easily available through a secure medium.

I am pleased to confirm the company has complied with the principles and provisions set out in the UK Corporate Governance Code throughout the year ended 31 December 2013, with the exception regarding attendance at the AGM. Further details are set out in the statement of corporate governance.

Details of the activities of the board and its committee are set out on pages 62-63. The directors' remuneration report incorporates the additional disclosures consistent with the UK government's new regulations on remuneration reporting.

Dennis Holt
Chairman

Board of directors

Our committees and committee chairmen

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

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

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

☛ Governance framework

Board of directors

Audit and risk committee	*Remuneration committee*
The chair of the audit and risk committee was assumed by Angela Crawford-Ingle upon her appointment to the board in March.	*The remuneration committee is chaired by Padraic O'Connor.*
Nomination committee	*Executive committee*
The nomination committee is chaired by Dennis Holt.	*The executive committee is chaired by Andrew Horton and acts under delegated authority from the board.*

For further details go to pages 65-72

Andrew Horton
Chief executive officer

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

Martin Bride
Group finance director

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

Adrian Cox
Head of specialty lines

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

Neil Maidment
Chief underwriting officer

Appointed: 15 March 2001*
Experience: Neil joined Beazley in 1990 and was appointed to the board in 1993. Neil has 29 years of Lloyd's experience and, in 2011, was elected to the board of the Lloyd's Market Association.
Committee: Executive committee

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

Clive Washbourn
Head of marine

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

Dennis Holt
Chairman

Appointed: 21 July 2011
Experience: Dennis has more than 40 years' experience in financial services markets. He was formerly a main board executive director at Lloyds TSB (2000-2001), chief executive of AXA UK and a member of AXA's Global executive committee (2001-2006). He has been chairman of Liverpool Victoria and deputy chairman of Bank of Ireland. Dennis has recently been appointed to the board of The Co-Operative Bank plc.
Committees: Nomination committee (chair), remuneration committee

Vincent Sheridan
Non-executive director

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

Padraic O'Connor
Non-executive director

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

George Blunden
Non-executive director

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

Ken Sroka
Non-executive director

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

Angela Crawford-Ingle
Non-executive director

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

Rolf Tolle
Non-executive director

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

Investor relations

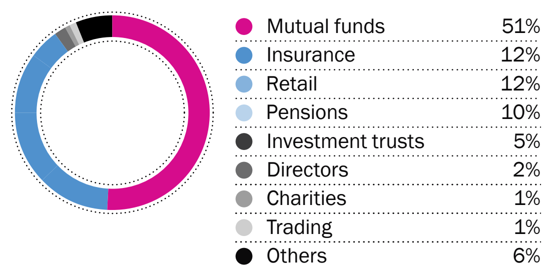
We place great importance on communication with shareholders. The annual report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). A mailed copy of the accounts is also available on request. The company responds to individual letters from shareholders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

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

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

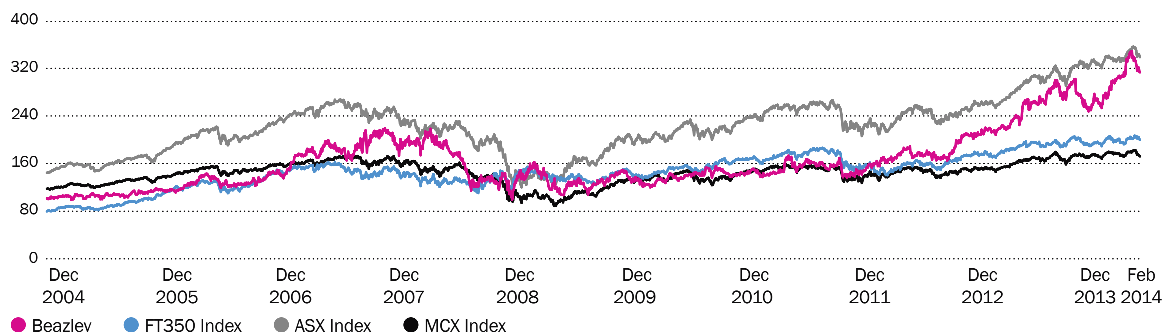
The company's shares are listed on the London Stock Exchange. Prices are given daily in newspapers including the Financial Times, The Times, the Daily Telegraph, the Daily Mail and the Evening Standard.

Shareholding by type of investor



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

Share price performance



Financial calendar

28 February 2014	Second interim dividend and special dividend record date
26 March 2014	Annual general meeting
28 March 2014	Second interim dividend and special dividend payment date for the six months ended 31 December 2013
22 July 2014	First interim dividend announcement for the six months ended 30 June 2014

Statement of corporate governance

Compliance with code provisions

The board confirms that the company and the group have complied with the provisions set out in the UK Corporate Governance Code throughout the year ended 31 December 2013, with the exception of the fact that Andrew Horton was unable to attend the AGM due to illness and Jonathan Gray was unable to attend the AGM due to other pressing business commitments.

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

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

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

The board

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

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

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

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

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

To enable the board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. During 2013 the company implemented electronic board and committee papers which ensures all information available is easy to access. Directors also have access to an electronic information repository to support their activities. All directors allocate sufficient time to the company to enable them to discharge their responsibilities effectively. The terms and conditions of appointment for all the non-executive directors set out the expected time commitment and they agree that they have sufficient time to meet what is expected of them. The nomination committee actively reviews the activities and time commitments of members and any changes to other significant commitments of the chairman and the non-executive directors would be reported to the board as they arose. During the year the nomination committee prepared a job specification, including an assessment of the time commitment expected, for the appointment of Angela Crawford-Ingle.

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

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

Meetings with non-executive directors

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

Board performance evaluation

Under the UK Corporate Governance Code, the board is required to undertake formal and rigorous evaluation of its own performance and that of its committees and individual directors, and for this to be externally facilitated every three years. In 2012 an assessment of the effectiveness of the board and its committees was externally facilitated by Deloitte LLP. The board confirms that improvements recommended by Deloitte LLP have been implemented. In 2013 the self assessment of effectiveness of the board and its committees was conducted through a combination of questionnaires and meetings. The board considered the results of the assessment and confirmed that there were no significant matters to be addressed. Further details of the review are included in the nomination committee report.

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

In addition to the five regular board meetings, there were further meetings to consider the Q3 2013 interim statement and director changes. Attendance at the meetings was high. All the directors also attend an annual strategy day. The remuneration committee has five scheduled meetings and in 2013 there was an additional ad hoc meeting with full attendance.

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

	Board		Audit and risk committee		Remuneration committee		Nomination committee	
Director	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended
G P Blunden	5	5	6	6	5	5	5	5
M L Bride	5	5	–	–	–	–	–	–
A P Cox	5	5	–	–	–	–	–	–
A D Crawford-Ingle*	4	4	5	5	–	–	–	–
J G Gray*	2	2	–	–	–	–	–	–
A G K Hamilton*	1	1	1	1	–	–	1	1
D Holt	5	5	–	–	5	5	5	5
D A Horton	5	5	–	–	–	–	5	5
P J O'Connor	5	5	–	–	5	5	–	–
N P Maidment	5	5	–	–	–	–	–	–
V J Sheridan	5	5	6	6	–	–	–	–
K P Sroka*	5	5	–	–	5	5	4	4
R W Tolle	5	5	6	6	–	–	–	–
C A Washbourn	5	4	–	–	–	–	–	–

* On 27 March 2013 Gordon Hamilton resigned from the board, audit and risk and nomination committees and Ken Sroka was appointed to the nomination committee. Angela Crawford-Ingle was appointed to the board and as chairman of the audit and risk committee on 27 March 2013. On 30 June 2013 Jonathan Gray resigned from the board.

Audit and internal control

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

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

The board agreed the 2013 risk appetite for the group at the end of 2012 and, throughout 2013, the board has considered and acted upon the information presented to it in order to make risk based decisions against the 2013 risk appetite. Key components of the risk management framework include monthly control self assessments and six monthly risk assessments, with ad hoc risk assessments being conducted when required. These matters have been considered by the executive risk and regulatory committee each month and the audit and risk committee and board quarterly. In addition, the board has considered the quarterly Own Risk and Solvency Assessment report in the past year. This risk management framework has provided the board with an ongoing process for identifying, assessing, monitoring and managing the risks to the company, and accords with the 'Internal Control: Revised Guidance for Directors on the Combined Code' guidance.

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

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

The board therefore confirms that it has, during 2013, reviewed the effectiveness of the group's risk management and internal controls (including financial, operational and compliance controls), which have been in place throughout the year under review and continue to operate up to the date of approval of the annual report and accounts.

Further information on the role of the audit and risk committee is set out on page 68 and further information on risk management at Beazley is set out in the risk management report.

Shareholder communication

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

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

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

Board committees

The group has established properly constituted audit and risk, remuneration and nomination committees of the board. There are terms of reference for each committee and details of their main responsibilities and activities in 2013 are set out on pages 68 to 72.

Audit and risk committee

Angela Crawford-Ingle

The board has delegated oversight of audit and risk matters to the audit and risk committee which currently comprises Angela Crawford-Ingle (committee chairman), Vincent Sheridan, George Blunden and Rolf Tolle. Angela assumed the role of chairman on her appointment to the board in March 2013 and has relevant and recent financial experience as a former partner of PriceWaterhouseCoopers.

Responsibilities of the committee

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

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

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

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

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

Significant financial statement reporting issues for the 2013 year

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

a) Valuation of insurance liabilities

As further explained in note 1 to the financial statements, the group's policy is to hold sufficient provisions, including those to cover claims which have been incurred but not reported (IBNR) to meet all liabilities as they fall due. 2013 has seen a number of medium-sized catastrophes, but has otherwise been a relatively benign year. Our consideration of cat losses has therefore been restricted to developments in relation to the more significant cats of previous years.

The audit committee receives regular reports from both the internal group actuary and the external audit team. In the latter part of the year, the group actuary has reported both informally and formally on the results of the Q3 peer review process, which the committee considers to be a key control as it provides a level of informed independent challenge for the reserve position. Through this reporting, management confirmed that they remain satisfied that the outstanding claims reserves included in the financial statements provide an appropriate margin over projected ultimate claims costs, and none of the committee's other enquiries identified any errors or inconsistencies that were material in the context of the financial statements as a whole.

The external auditors have also used the Q3 data to re-project the reserves using their own methodologies and the comparison presented to the committee has provided an additional level of challenge to the result. This work was rolled forward and reported on at the year end with further consideration of the classes of business within specialty lines, which the committee requested. On the basis of their audit work, the auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole; and in the committee's view this supports the appropriateness of the group's methodology.

b) Valuation of financial assets at fair value

As more fully explained in note 16, the total carrying amount of financial assets at fair value (investments) at 31 December 2013 is $4,043.6m.

The board is responsible for setting the investment strategy, defining the risk appetite and overseeing the outsource provider via the chief investment officer (CIO). The committee receives reporting from the CIO via the finance director and it has reported for 2013 that the investment portfolio is in line with the board approved risk appetite and that carrying values of the portfolio as at 31 December 2013 are appropriate.

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

c) Valuation of intangible assets and goodwill

As set out in note 12, in 2013 management have recorded a write-down in the valuation of the renewal rights associated with the AIP business in Australia. This business has been loss-making for several years and the committee followed the progress of this decision through reporting from both management and the external auditor to the point at which the decision was finalised. The committee noted that the loss-making business meant that the projected future cash flows could not support the carrying value of the intangible asset and concurred with the position taken by management.

d) Recoverability of reinsurance assets

The committee received confirmation from management that the majority of Beazley's reinsurance receivables are due from highly rated institutions. Based on previous experience, the committee have not noted any instances where poor quality reinsurers have led to a financial loss and are comfortable with the monitoring processes management have described and put in place to ensure this continues. The external auditor has provided an overview of industry benchmarks reviewed in the context of the group's reinsurance counterparts and the committee is comfortable that the judgements applied by management are not out of line with peers.

Internal audit

The Beazley plc board has delegated oversight of the group's internal audit function and its work to the audit and risk committee; the function reports directly to the committee. During 2013, the committee:

- considered the results of all internal audit reports and monitored the progress of resulting actions;
- approved the internal audit universe and 2014 internal audit plan;
- reviewed and approved the internal audit charter;
- monitored ongoing amendments to the internal audit function's activities to ensure it complies with the UK Chartered Institute of Internal Auditor's code for effective internal audit in the financial services sector.

Assessing the effectiveness of the external auditors

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

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

Non-audit services

The audit and risk committee's responsibility to monitor and review the objectivity and independence of the external auditor is supported by a policy that we have developed in relation to the provision of non-audit services by the auditors. The objective is to ensure that the provision of such services does not impair the external auditor's objectivity. The policy specifically disallows certain activities to be provided by the auditors, such as bookkeeping and accounting services, internal actuarial services and executive remuneration services. The policy requires pre-approval for all other material services such as due diligence assistance, tax services and advice on accounting and audit matters. The committee reviews the terms of such proposed services to ensure they have been robustly justified.

The committee receives a report from the external auditors twice a year setting out all non-audit services undertaken so that it can monitor the types of services being provided, and the fees incurred for that work. The aim is to limit the total spend on non-audit services to a maximum of the annual audit fee, unless it is deemed to be in the shareholders' interest from an efficiency and effectiveness point of view.

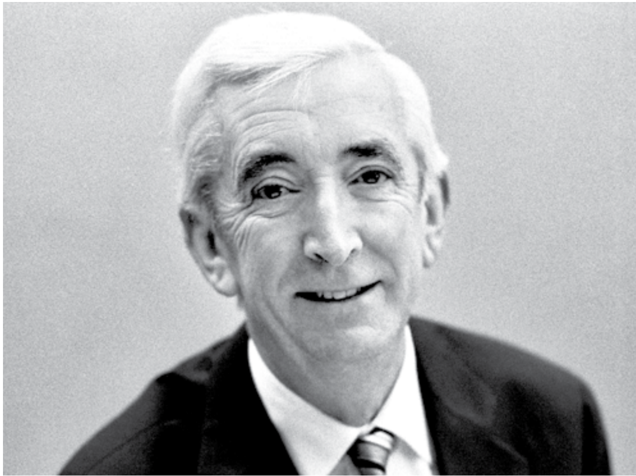
The split between audit and non-audit fees for the year under review is disclosed in note 6 to the financial statements. None of the non-audit services provided are considered by the audit and risk committee to affect the auditors' independence or objectivity.

Risk management

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

- risk appetite: The committee has monitored the actual risk profile against risk appetite throughout 2013 and can confirm that Beazley has been operating within risk appetite. The committee has also reviewed the proposed 2014 risk appetite and commended it to the Beazley plc board for approval;
- risk assessment: The committee has performed a review of the risk profile to ensure it covers the complete universe of risk and that all major underlying risks are visible and are being monitored;
- reverse stress testing: The committee has received the results of the reverse stress testing exercise to understand what would have to happen for the group to be unviable and to provide assurance to the board that the likelihood of this is sufficiently remote;
- risk profiles: The committee has reviewed risk profiles on the Beazley Breach Response product and our aviation products with a particular focus on what risks are underwritten and how the risks, including the aggregation of risk, are managed;
- emerging risk: The committee supported the identification of strategic and emerging risks which were discussed at the board meeting in May and have been subsequently monitored and reported in the quarterly Own Risk and Solvency Assessment (ORSA);
- oversight of the control environment: The committee has received a quarterly consolidated assurance report which provides the status of the control environment with views from the business, from risk management, from compliance and from internal audit. It also includes entries from the risk incident log;
- oversight of internal model: The committee and the risk committees of the subsidiary boards have reviewed a number of reports on the operation of the internal model. These have included a standing report on internal model output, a validation report covering both internal and independent validation and themed reviews, for example, on the approach used to aggregate risk. These assessments have supported the boards' use of the internal model; and
- quarterly ORSA: The committee has received a quarterly ORSA report and has reviewed it as part of the quality assurance process before commending it to the board.

Remuneration committee



Padraic O'Connor

The membership of the remuneration committee remained unchanged in 2013 and comprises Padraic O'Connor (chairman), George Blunden, Dennis Holt and Ken Sroka.

Responsibilities of the committee

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

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

Key activities in 2013

During 2013 the committee:

- reviewed the key aspects of the remuneration policy, and the committee is satisfied that the current remuneration structure is appropriate to attract and retain talented people;
- considered the chief risk officer's report on the remuneration policy, which confirmed that the remuneration arrangements are consistent with, and promote, effective risk management throughout the organisation through the consideration of remuneration design, performance of the control environment, profit related pay targets, calculation of the bonus pool, and share plan awards;
- oversaw the new disclosures required in the directors' remuneration report;
- ensured incentives continued to be appropriate and to align company and shareholders;
- approved the grant of share awards under the group's deferred, retention and LTIP plans;
- considered the salary and bonus awards for 2013 for executive directors, heads of control functions and other officers;
- approved the fee awards for non-executive directors and recommended the chairman's fees to the board; and
- reviewed the executive director employment contracts.

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

Nomination committee

Dennis Holt

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

Responsibilities of the committee

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

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

Policy on gender and other diversification

We continually review our approach to diversity and our aim is to have nurtured diverse employees across the business who are given the tools and opportunities to progress their career within Beazley.

In order to achieve this we are:

- supporting, mentoring and encouraging individuals from diverse backgrounds to grow and develop within Beazley;
- establishing leadership and sponsorship of our vision at the most senior level of our organisation;
- regularly reviewing our employment policies and practices with input from our people to ensure they support our diversity objectives;
- building in accessibility from the start when developing new products and services; and
- taking positive action to ensure all employees receive equality of opportunity in recruitment, training, development, promotion and remuneration.

Key activities in 2013

During 2013 the committee:

- completed the search for a replacement for Gordon Hamilton who left in March 2013. The nomination committee prepared a job specification, including an assessment of the time commitment expected. An executive search consultancy firm, Zygos, was appointed to conduct a search for the role. On appointment, Zygos was briefed on the specific criteria necessary for the role. Angela Crawford-Ingle was appointed to the board on 27 March 2013 and assumed the chair of the audit and risk committee;
- oversaw the completion of the recommendations and actions arising from the 2012 board review. The 2013 review was conducted internally through questionnaires. No significant matters were identified and the committee concluded that the board is balanced with appropriate skills and competence. Some areas for process improvement were noted and the committee will oversee the completion of the action plan in 2014;
- reviewed the performance of management and considered the board and committee succession plans;
- ensured that director development plans were implemented and that the board collectively received relevant training; and
- ensured board members are able to allocate sufficient time to the company to discharge their responsibilities effectively.

Letter from our chairman of the remuneration committee

Dear shareholder

In the following pages we set out the committee's directors' remuneration report for 2013. Following the introduction of new UK regulations, this year shareholders will be asked to vote separately on our remuneration policy and our annual remuneration report. Beazley has chosen to comply with the regulations in full notwithstanding that we are not a UK company. Accordingly our policy report will be subject to a binding vote at the AGM.

Beazley delivered an excellent performance for 2013 with a pre-tax profit of $313.3m (2012: $251.2m). Our combined ratio of 84% is the best we have reported as a public company. Even though aided by a benign claims environment, this was also testament to our focus on underwriting profitability. We continued to achieve premium growth in 2013 despite challenging market conditions and maintained a focus on future growth through hiring individuals to help us expand into new geographies and lines of business.

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

Our executive remuneration policy is governed by two guiding principles – alignment to shareholder interests and performance of the group. The committee considers the overall package to be appropriate, responsible and balanced. The rewards of the company's leadership are strongly aligned to the long-term and sustained performance of the company.

The committee regularly reviews whether our approach to remuneration is consistent with and takes account of the risk profile of the company. The committee receives an annual report from the chief risk officer on remuneration policy to ensure it is consistent with and promotes effective risk management.

We have made no significant changes to the executive remuneration policies during the year.

The average salary increase for executive directors was 2.2% which was marginally less than the average increases throughout the organisation.

We are keen to encourage an ongoing dialogue on our policies and continue to welcome our shareholders' views.

Padraic O'Connor
Remuneration committee chairman

Directors' remuneration report

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

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

Directors' remuneration policy

This part of the report sets out Beazley's director's remuneration policy which will be subject to a binding vote at the 2014 AGM. Subject to shareholder approval, the policy will take effect from the 2014 AGM.

Remuneration policy table

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

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Executive directors				
Base salary	Salaries are set at a level to appropriately recognise responsibilities and to be broadly market competitive.	Salaries are normally reviewed annually. Salaries for 2014 are: • D A Horton: £439,110 • M L Bride: £306,000 • A P Cox: £329,500 • N P Maidment: £329,500 • C A Washbourn: £329,500	There is no maximum salary opportunity. Any salary increases will generally reflect our standard approach to all-employee salary increases across the group. Higher increases may be made in a range of circumstances where the committee considers that a larger increase is appropriate including (but not limited to): • a new appointment • a change in role or adoption of additional responsibilities • development of the individual in the role • alignment to market levels.	None.

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

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

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Pension	To provide market levels of pension provision.	Current policy is to contribute to a defined contribution pension plan. An equivalent cash alternative may be offered. Legacy defined benefit pension arrangements are in place for certain executives (A P Cox, N P Maidment and C A Washbourn). Further service accruals ceased on 31 March 2006.	For defined contribution, maximum company contribution of 15% of salary. Legacy defined benefit pension arrangements will be honoured.	None.
SAYE	To create staff alignment with the group and promote a sense of ownership.	HMRC-approved monthly savings scheme facilitating the purchase of shares at a discount.	Monthly contribution limit up to the HMRC approved limit.	None.
US SAYE	To create staff alignment with the group and promote a sense of ownership.	US version of the SAYE, for US employees.	Monthly contribution limit at a level that is broadly in line with the UK SAYE plan.	None.
Other HMRC all-employee approved plans	To create staff alignment with the group and promote a sense of ownership.	Executive directors may participate in any all-employee HMRC approved share plans adopted by the company. Executive directors would participate on the same terms as all employees.	Limits in line with HMRC approved limits.	None.

Legacy matters

Payments can also be made to executive directors under the following legacy remuneration arrangements. It is not intended that these components of remuneration policy will be used to grant any future awards.

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Marine share incentive plan (MSIP)	To align the head of the marine division with the sustained outstanding performance of the marine division.	A share award in 2013 for the head of marine made in two tranches: • 500,000 shares to vest after 3 years, • 500,000 shares to vest after 5 years. Shares under award may have dividend equivalents until vesting. Awards are subject to a malus provision. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development.	1,000,000 shares.	The award is subject to pre-tax divisional return on equity (ROE) performance and continued employment, measured over three years (50%) and five years (50%): 20% vesting for 15% divisional ROE performance, 100% vesting for 25% divisional ROE performance, with straight line vesting between points.
Conditional awards	Conditional awards were made on 27 April 2009 at the time of M L Bride's recruitment. The 150,000 shares vest in four equal tranches on each of the third, fourth, fifth and sixth anniversaries.			

Non-executive directors

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

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

Clawback of awards via malus may apply where stated in the above table. Other elements of remuneration are not subject to recovery provisions.

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

LTIP and MSIP share awards shall be operated in accordance with the rules of the plan as approved by shareholders. In accordance with those rules the committee has discretion in the following areas:

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

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

Performance measures and targets

Annual bonus plan

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

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

Investment in underwriting

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

Long term incentive plan

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

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

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

Differences in policy from broader employee population

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

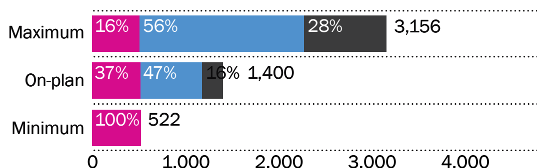
All employees in the group may participate in a defined contribution pension plan, and are offered benefits such as private medical insurance and permanent health insurance. Beazley also operates all-employee share plans to create staff alignment and promote a sense of ownership.

Illustrations of application of remuneration policy

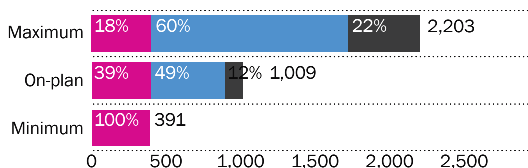
The charts below set out an illustration of the remuneration policy for 2014 in line with the remuneration policy above and include base salary, pension, benefits and incentives.

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

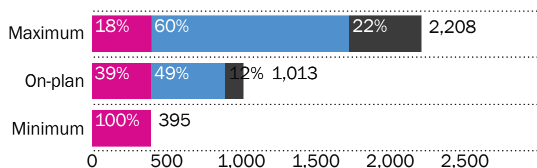
Chief Executive Officer (£'000)



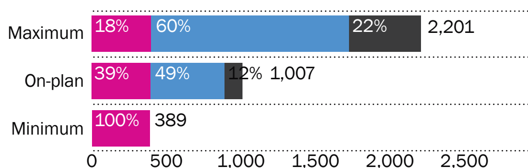
Head of Marine (£'000)



Chief Underwriting Officer (£'000)

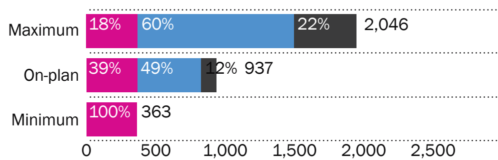


Head of Specialty Lines (£'000)



● Minimum remuneration ● Long term remuneration
● Annual variable remuneration

Group Finance Director (£'000)



● Minimum remuneration ● Long term remuneration

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

* Excludes share price growth and dividends.

Directors' remuneration report *continued*

Approach to recruitment remuneration

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

- in order to facilitate the future success of the company it is important that we are able to recruit directors of the calibre required to deliver our strategic priorities. Although the company operates in a highly competitive market for executive talent, the committee remains conscious of the need to avoid paying more than is necessary on recruitment;
- the committee will, so far as practical, seek to align the remuneration package for any incoming executive with the policy set out in the table on page 79;
- on recruitment salaries will be set to take into account role and responsibilities. For interim positions a cash supplement may be paid rather than salary (for example a non-executive director taking on an executive function on a short-term basis);
- the committee may, on appointing an executive director, need to 'buy out' remuneration arrangements forfeited on joining the company;
- any buyout would take into account the terms of the arrangements (e.g. form of award, performance conditions, timeframe) being forfeited in the previous package. The form of any award would be determined at the time and the committee may if necessary make use of LR 9.4.2 of the Listing Rules (for the purpose of buyout awards only). The committee would seek to structure buyout awards to be in line with Beazley's remuneration framework so far as practical. The overriding principle will be that any replacement buyout awards would be of comparable commercial value to the awards which have been forfeited;
- all buyout awards would normally be liable to forfeiture or 'clawback' on early departure. For executive directors early departure is defined as being within the first two years of employment;
- the maximum level of variable remuneration which may be granted in the first year (excluding buyouts) is in line with the aggregate maximums set out in the policy table. The committee retains the flexibility to determine that for the first year of appointment any annual bonus award will be subject to such conditions as it may determine; and
- where an executive is appointed from within the organisation, the normal policy of the company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an executive director is appointed following Beazley's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Service contracts and loss of office payment policy

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

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

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

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

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

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

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

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

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

Directors' remuneration report *continued*

Non-executive directors' fee policy and service contracts ▪

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

	Commencement date of appointment	Expires
G P Blunden	1 Jan 2010	AGM 2016
A Crawford-Ingle	27 Mar 2013	AGM 2016
D Holt	21 Jul 2011	AGM 2015
P J O'Connor	20 Mar 2009	AGM 2015
V J Sheridan	9 Jun 2009	AGM 2016
K P Sroka	12 Nov 2010	AGM 2017
R A W Tolle	6 Dec 2010	AGM 2017

With effect from 2012 the standard approach for non-executive director appointment is that the appointment expires at the AGM following the end of the 3 year term, notwithstanding the fact each director is subject to annual re-election at each AGM.

Consideration of conditions elsewhere in the company

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

Consideration of shareholders views

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

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

Minor changes

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

Annual remuneration report

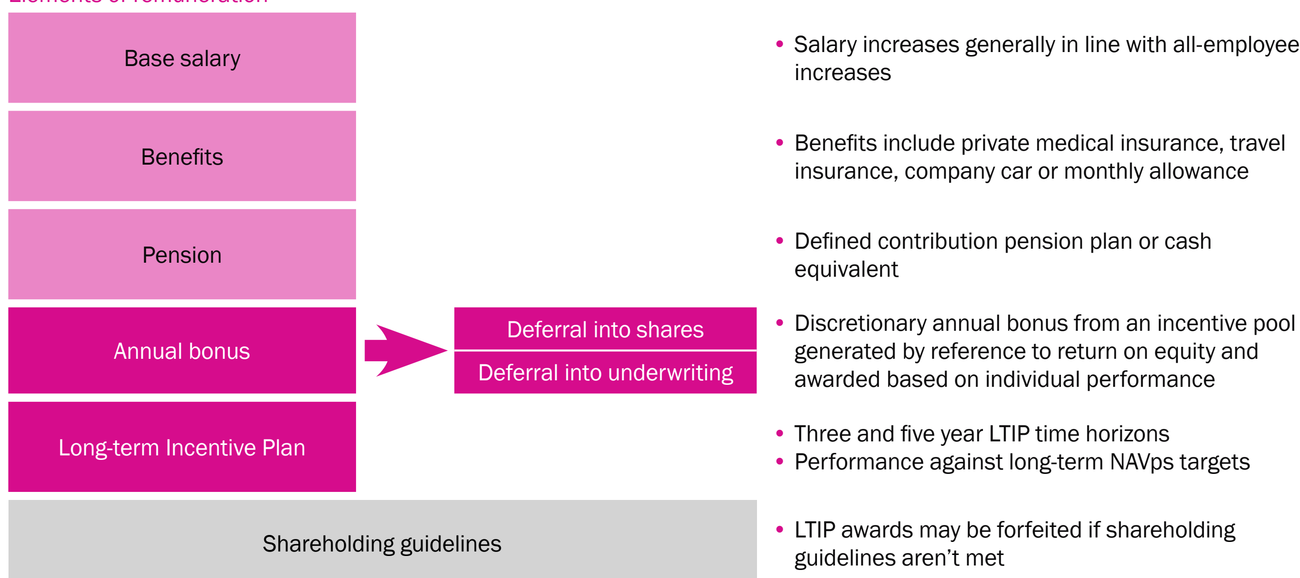
Remuneration principles

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

We believe that:

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

Elements of remuneration



Risk and reward at Beazley

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

Features aligned with risk considerations

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

Single total figure of remuneration

The following tables set out the single figure for total remuneration for directors for the financial years ending 31 December 2013 and 31 December 2012:

Executive directors

		Fixed pay			Pay for performance					
£		Salary	Benefits	Pension	Cash bonus	Bonus deferred into shares	Bonus deferred into staff underwriting[1]	Total annual bonus	LTI	Total remuneration
M L Bride	2013	300,000	11,377	45,000	533,000	267,000	–	800,000	340,849	1,497,226
	2012	270,000	11,320	40,500	354,000	180,000	66,000	600,000	308,233	1,230,053
A P Cox[3]	2013	320,000	102,537	48,000	600,000	300,000	–	900,000	340,849	1,711,386
	2012	270,000	11,081	40,500	560,000	240,000	–	800,000	308,233	1,429,814
J G Gray[2]	2013	160,208	8,068	24,031	160,208	–	–	160,208	409,017	761,532
	2012	315,000	16,173	47,354	400,000	100,000	–	500,000	369,879	1,248,406
D A Horton	2013	430,500	16,852	64,575	1,076,250	523,750	–	1,600,000	727,143	2,839,070
	2012	420,000	16,505	63,000	840,000	360,000	–	1,200,000	640,068	2,339,573
N P Maidment	2013	323,000	16,336	48,450	800,000	400,000	–	1,200,000	409,017	1,996,803
	2012	315,000	16,237	47,250	630,000	270,000	–	900,000	369,879	1,648,366
C A Washbourn	2013	323,000	11,967	48,742	800,000	400,000	–	1,200,000	409,017	1,992,726
	2012	315,000	11,761	47,542	840,000	360,000	–	1,200,000	369,879	1,944,182

1 The directors may defer a portion of annual bonus awarded in the year into the staff underwriting plan.
2 Mr Gray stepped down from the board on 1 July 2013. He remains employed by the group. Figures in the table above have been pro-rated to reflect the six months during which he was an executive director, with the exception of the LTI award vesting in respect of the year, which is shown in full.
3 Benefits for Mr Cox in 2013 included allowance of £92,328 in respect of his relocation to US. This included housing allowance of £27,763, relocation allowance of £26,667 and tax gross up of the benefit of £26,963.

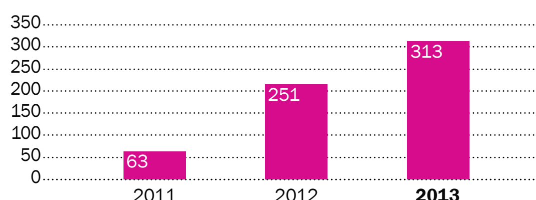
Non-executive directors

£		Total fees[1]
G P Blunden	2013	76,250
	2012	74,250
A D Crawford-Ingle[2]	2013	65,302
	2012	–
A G K Hamilton[3]	2013	20,558
	2012	83,500
D Holt[4]	2013	158,250
	2012	134,206
P O'Connor[5]	2013	72,458
	2012	67,886
V J Sheridan[5]	2013	61,864
	2012	57,927
K Sroka	2013	53,750
	2012	52,500
R A W Tolle	2013	77,500
	2012	71,797

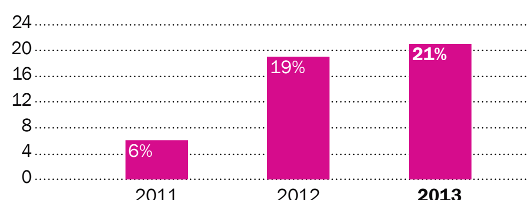
1 Other than for the chairman, fees include fees paid for chairmanship of the audit and risk and remuneration committees, and for the role of senior independent director, as well as fees, where relevant, for members of subsidiary board of Beazley Furlonge Limited (BFL), Beazley Re Limited and chairmanship of BFL audit and risk committee.
2 Mrs Crawford-Ingle was appointed to the board on 27 March 2013 and the figure in the table above represents her fees from this date.
3 Mr Hamilton stood down as non-executive director on 27 March 2013 and the figure in the table above represents his fees to this date.
4 Mr Holt took up the position of non-executive chairman following the annual general meeting in March 2012 and the figure for 2012 in the above table includes fees relating to this appointment from this date.
5 For Mr O'Connor and Mr Sheridan, their non-executive director fee was based on €85,500 and €73,000 respectively and has been converted into sterling for this table at the average exchange rate of 1.18.

Performance charts

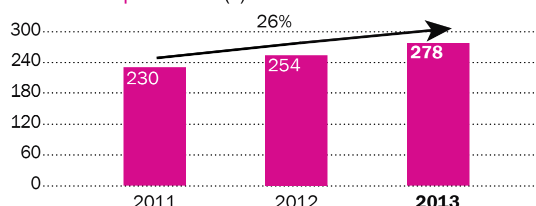
Profit before tax ($m)



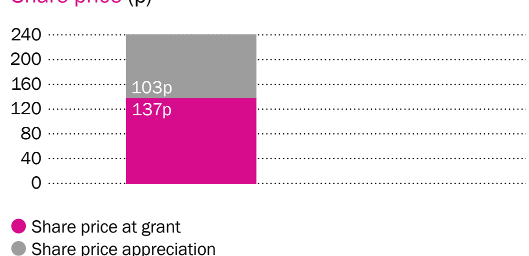
Return on equity (%)



Net assets per share (c)



Share price (p)



● Share price at grant
● Share price appreciation

Salary ▪

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

As reported last year, for 2013, Martin Bride and Adrian Cox, received salary increases to reflect development in their roles, and a policy of lower starting salary positioning with a move to market rate following sustained performance. The average salary increase for the other executive directors was 2.5%, which was below the average salary increases across the group.

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

The annualised base salaries for 2013 and 2014 are as set out below:

	2013 base salary £	2014 base salary £	Increase %
M L Bride	300,000	306,000	2.0
A P Cox	320,000	329,500	3.0
D A Horton	430,500	439,110	2.0
N P Maidment	323,000	329,500	2.0
C A Washbourn	323,000	329,500	2.0

Benefits ▪

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

Directors' remuneration report *continued*

Annual bonus plans ▪

The enterprise bonus plan is a discretionary plan in which all employees are eligible to participate. The framework for determining bonuses is as follows:

- a pool is based on a percentage of profit subject to a minimum group return on equity;
- the percentage of profit increases for higher levels of ROE;
- determination of bonus then takes into account individual contribution and divisional performance; and
- the bonus is discretionary, rather than a prescriptive formulaic framework, and the committee considers wider factors in its deliberations at the end of the year, for example quality of profit.

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

The approach to the calculation of bonuses is aligned to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing. Given this overall structure, there is no specific weighting between measures. The committee reviews the bonus pool framework each year to ensure it remains appropriate, taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors.

Performance out-turn for 2013

The following table sets out the out-turn for 2013 against performance.

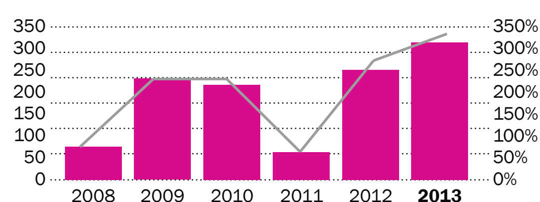
	Pre-tax profit*	Post-tax ROE	Average executive director bonus as a percentage of salary
2013	$313m	21%	c.333%
2012	$251m	19%	c.272%
2011	$63m	6%	c.64%
2010	$217m	19%	c.230%
2009	$231m	24%	c.230%
2008	$76m	8%	c.75%

* Profit for years prior to 2010 has been converted from sterling based on the average prevailing exchange rate for that year.

The board considers that specific details of the ROE framework, as well as individual and divisional performance, are matters which are commercially sensitive and should therefore remain confidential to the company. The reason for this decision is that Beazley operates in a highly competitive market that is people and relationship driven. The disclosure of these specific details would, in the view of the board, expose the group to an undue commercial risk.

The following graph illustrates the way in which bonuses over time reflect profit and ROE performance.

Average executive director bonus payout (% of salary)



In line with the framework, annual bonus out-turns vary significantly with performance achieved for the year. The annual bonus out-turns for executive directors for 2013 reflected Beazley's excellent ROE and PBT performance for the year.

Bonus Deferral

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

A portion of bonus may also be deferred under the investment in underwriting plan, and this capital can be lost if underwriting performance is poor (see below for further details).

For 2013, the portion of each director's annual bonus deferred into shares and the investment in underwriting plan were as follows:

	Deferred into shares	Deferred under the Beazley staff underwriting plan
M L Bride	£267,000	–
A P Cox	£300,000	–
J G Gray	–	–
D A Horton	£523,750	–
N P Maidment	£400,000	–
C A Washbourn	£400,000	–

Long-term incentive plan (LTIP)

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

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

In good leaver circumstances and on change of control, vesting of awards take into account time and performance.

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

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

Directors' remuneration report *continued*

Awards vesting in respect of the year

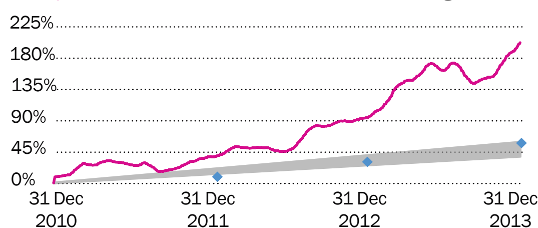
The LTIP awards shown in the single figure are due to vest on 14 February 2014. These awards were granted on 14 February 2011 and were subject to the achievement of the following NAVps growth performance condition over the three years ended 31 December 2013:

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

Actual NAVps growth achieved in the three years to 31 December 2013 was 16.1% p.a. which resulted in 100% of awards vesting. The results were independently calculated by Deloitte LLP.

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

LTIP performance 2010-2013 NAV and TSR growth



Awards granted during the year

During 2013 the following long-term share awards were granted:

Individual	Type of interest	Basis on which award made	Number of shares awarded	Face value of shares (£)[1]	% Vesting at threshold	Performance period end Three years (50%)	Performance period end Five years (50%)
LTIP							
M L Bride	Nil cost option (LTIP)	150% of salary	220,372	450,000	10%	31/12/2015	31/12/2017
A P Cox	Nil cost option (LTIP)	150% of salary	235,064	480,000	10%	31/12/2015	31/12/2017
J G Gray	Nil cost option (LTIP)	150% of salary	237,268	484,500	10%	31/12/2015	31/12/2017
D A Horton	Nil cost option (LTIP)	200% of salary	421,645	861,000	10%	31/12/2015	31/12/2017
N P Maidment	Nil cost option (LTIP)	150% of salary	237,268	484,500	10%	31/12/2015	31/12/2017
C A Washbourn	Nil cost option (LTIP)	150% of salary	237,268	484,500	10%	31/12/2015	31/12/2017
Marine Share Incentive Plan[2]							
C A Washbourn	Nil cost option (MSIP)	Two tranches of 500,000 shares	1,000,000	2,178,000	20%	31/12/2015	31/12/2017

1 The face value of shares awarded was calculated using the three day average share price prior to grant, which was 204.2p for the LTIP and 217.8p for MSIP.
2 Details of the Marine Share Incentive Plan are set out in the the Policy Report, under legacy matters in the remuneration policy table.

The performance condition for LTIP awards was as follows:

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

Awards for 2014 ▪

It is intended that the LTIP awards for 2014 will be in line with those granted in 2013 (see above).

Dilution

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

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

Investment in underwriting ▪

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

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

To date over 170 employees of the group have committed to put at risk £8.0m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £7.1m has already been deferred from the bonuses awarded.

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

	Total bonuses deferred and at risk £	2012 year of account underwriting capacity £	2013 year of account underwriting capacity £	2014 year of account underwriting capacity £
M L Bride	199,000	400,000	400,000	400,000
A P Cox	199,000	400,000	400,000	400,000
D A Horton	199,000	400,000	400,000	400,000
N P Maidment	199,000	400,000	400,000	400,000
C A Washbourn	199,000	400,000	400,000	400,000

Pensions ▪

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

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

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

Directors' remuneration report *continued*

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

	Accrued benefit at 31 Dec 2013 £	Increase in accrued benefits excluding inflation (A) £	Increase in accrued benefits including inflation £	Transfer value of (A) less directors' contributions £	Transfer value of accrued benefits at 31 Dec 2013 £	Increase in transfer value less directors' contributions £	Normal retirement date
A P Cox	11,809	–	402	–	221,884	35,371	12 Mar 2031
J G Gray	32,057	–	–	–	836,352	27,474	3 Jun 2013
N P Maidment	40,315	–	1,375	–	882,230	130,272	21 Oct 2022
C A Washbourn	17,918	–	611	–	416,286	67,249	26 Oct 2020

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

No other pension provisions are made.

Payments for loss of office

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

External appointments

Andrew Horton has been appointed as a non-executive director of Man Group plc, with effect from 3 August 2013 and he retains the fees in respect of this appointment. Fees for the year were £32,821.

Non-executive directors' fees

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

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

Non-executive directors are appointed for fixed terms, normally for three years, and may be reappointed for future terms. Non-executive directors are typically appointed through a selection process that assesses whether the candidate brings the desired competence and skills to the group. The board has identified several key competencies for non-executive directors to complement the existing skill-set of the executive directors. These competencies may include:

- insurance sector expertise;
- asset management skills;
- public company and corporate governance experience;
- risk management skills;
- finance skills; and
- IT and operations.

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

Approach to remuneration for employees' other than directors

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

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

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

Underwriter bonus plan – profit related pay plan

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

The objective of the plan is to align the interests of the group and the individual through aligning an underwriter's reward to the long-term profitability of their portfolio.

Underwriters who have significant influence over a portfolio may be offered awards under the plan. There is no automatic eligibility. Profit related pay is awarded irrespective of the results of the group and is capped at a maximum of 150% of salary.

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

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

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

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

Support bonus plan

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

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

SAYE

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

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

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

CEO pay increase in relation to all employees

	Percentage change in remuneration from 31/12/2012 to 31/12/2013		
	Percentage change in base salary %	Percentage change in benefits %	Percentage change in annual bonus %
CEO	2.0%	2.4%	33.3%
All-employees	3.1%	4.4%	36.2%

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

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

The table below shows the total number of directors' interests in shares as at 31 December 2013 or date of cessation as a director.

		Unvested awards			Vested awards	
Name	Number of shares owned (including connected persons)	Conditional shares not subject to performance conditions (deferred shares and retention shares)	Nil cost options subject to performance conditions (LTIP and MSIP awards)	Options over shares subject to savings contracts (SAYE)	Unexercised nil cost options	Options exercised in the year
G P Blunden	50,000	–	–	–	–	–
M L Bride	350,000	194,527	1,040,890	5,311	–	388,996
A P Cox	581,985	261,589	980,582	-	–	333,286
J G Gray	759,549	156,703	1,122,476	5,311	–	293,749
A G K Hamilton	37,991	–	–	–	–	–
D Holt	50,000	–	–	–	–	–
D A Horton	1,630,087	381,610	1,985,423	8,100	–	800,780
A Crawford- Ingle	13,500	–	–	–	–	–
N P Maidment	3,817,523	296,472	1,122,476	5,311	–	374,303
P J O'Connor	30,000	–	–	–	–	–
V J Sheridan	20,000	–	–	–	–	–
K P Sroka	–	–	–	–	–	–
R A W Tolle	60,000	–	–	–	–	–
C A Washbourn	610,331	378,226	2,122,476	8,100	–	410,354

No changes in the interests of directors have occurred between 31 December 2013 and 5 February 2014.

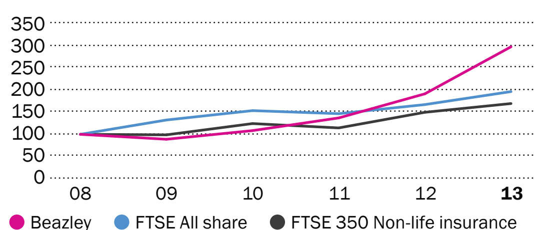
CEO pay versus performance

Total shareholder return*

The following graph sets out Beazley's five year total shareholder return performance to 31 December 2013, compared with FTSE All share and FTSE 350 Non-life insurance indices. These indices were chosen as comparators as they comprise companies listed on the same exchange and, in the case of the Non-life insurance index, the same sector as Beazley.

Total shareholder return performance*

Value of £100 invested on 31st December 2008



Historical CEO payouts

Year	CEO single figure of total remuneration	Annual variable award (% of maximum opportunity)*	Long-term incentives vesting (% of maximum opportunity)
2009	£1,458,131	71%	50%
2010	£1,525,102	63%	50%
2011	£1,008,669	14%	99%
2012	£2,339,573	71%	84%
2013	£2,839,070	93%	100%

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

Relative importance of spend on pay

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

	Overall expenditure on pay	Shareholder distributions (dividends in respect of the year)
2012	$161.1m	$136.4m
2013	$184.8m	$207.6m

Remuneration committee

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

The committee considers the individual remuneration packages of the chief executive, executive directors and executive committee members. It also has oversight of the salary and bonus awards of individuals outside the executive committee who either directly report to executive committee members or who have basic salaries over £200,000, as well as the overall bonus pool and total incentives paid by the group. The terms of reference of the committee are available on the company's website. During the year the committee was advised by remuneration consultants from Deloitte LLP. Total fees in relation to executive remuneration consulting was £136,000. Deloitte LLP also provided advice in relation to overseas tax, assurance support, share schemes and board processes.

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

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

Statement of shareholder voting

There were two remuneration related shareholder votes at the 2013 AGM and the voting outcomes were as follows:

	Votes for	% for	Votes against	% Against	Total votes cast	Votes discretionary	Votes withheld (abstentions)
2012 DRR	393,601,233	98.6%	5,692,470	1.4%	409,920,025	30,610	10,595,712
Marine Share Incentive Plan	262,506,184	67.7%	125,407,636	32.3%	409,920,025	33,360	21,972,845

The Marine Share Incentive Plan was a response to a substantial remuneration-related commercial risk to the business. The committee undertook extensive consultation on the proposal with a wide range of Beazley's largest shareholders and adapted elements of the final plan following feedback from these shareholders.

From consultation, the committee considers that the lower voting out-turn in relation to the Marine Share Inventive Plan reflects shareholders' strong reservations, in principle, about awards which are exceptional in nature. The committee found the dialogue with shareholders on this, and other remuneration matters, useful and informative for the development of future policy.

The committee is committed to maintaining an on-going dialogue with shareholders on remuneration matters.

Directors' share plan interests ▪

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

	Outstanding options at 1 Jan 2013	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2013	Exercice price £	Closing share price on date of exercise £	Earliest exercise date	Expiry date
J G Gray									
Deferred bonus:									
23 Feb 2010	116,604	–	116,604	–	–	2.13572	2.15400	23/02/2013	23/02/2013
14 Feb 2011	94,197	–	–	–	94,197	–	–	14/02/2014	14/02/2014
13 Feb 2012	13,534	–	–	–	13,534	–	–	13/02/2015	13/02/2015
13 Feb 2013	–	48,972	–	–	48,972	–	–	13/02/2016	13/02/2016
LTIP (see notes):									
18 Feb 2010 – 5 year	209,888	–	–	–	209,888	–	–	18/02/2015	18/02/2020
18 Feb 2010 – 3 year	209,888	–	177,145	32,743		2.10400	2.11200	18/02/2013	18/02/2020
14 Feb 2011 – 5 year	172,946	–	–	–	172,946	–	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	172,946	–	–	–	172,946	–	–	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	164,714	–	–	–	164,714	–	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	164,714	–	–	–	164,714	–	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	–	118,634	–	–	118,634	–	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	–	118,634	–	–	118,634	–	–	13/02/2016	13/02/2023
SAYE:									
2013	–	5,311	–	–	5,311	1.69440	–	01/07/2016	01/01/2017

	Outstanding options at 1 Jan 2013	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2013	Exercice price £	Closing share price on date of exercise £	Earliest exercise date	Expiry date
C A Washbourn									
Deferred bonus:									
23 Feb 2010	233,209	–	233,209	–	–	2.13572	2.15400	23/02/2013	23/02/2013
14 Feb 2011	188,394	–	–	–	188,394	–	–	14/02/2014	14/02/2014
13 Feb 2012	13,534	–	–	–	13,534	–	–	13/02/2015	13/02/2015
13 Feb 2013	–	176,298	–	–	176,298	–	–	13/02/2016	13/02/2016
LTIP (see notes):									
18 Feb 2010 – 5 year	209,888	–	–	–	209,888	–	–	18/02/2015	18/02/2020
18 Feb 2010 – 3 year	209,888	–	177,145	32,743		2.27500	2.23200	18/02/2013	18/02/2020
14 Feb 2011 – 5 year	172,946	–	–	–	172,946	–	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	172,946	–	–	–	172,946	–	–	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	164,714	–	–	–	164,714	–	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	164,714	–	–	–	164,714	–	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	–	118,634	–	–	118,634	–	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	–	118,634	–	–	118,634	–	–	13/02/2016	13/02/2023
MSIP:									
05 Apr 2013 – 5 year	–	500,000	–	–	500,000	–	–	05/04/2018	05/04/2023
05 Apr 2013 – 3 year	–	500,000	–	–	500,000	–	–	05/04/2016	05/04/2023
SAYE:									
2012	8,100	–	–	–	8,100	1.11100	–	01/07/2015	01/01/2016
A P Cox									
Deferred bonus:									
23 Feb 2010	139,925	–	139,925	–	–	2.13572	2.15400	23/02/2013	23/02/2013
14 Feb 2011	131,876	–	–	–	131,876	–	–	14/02/2014	14/02/2014
13 Feb 2012	12,181	–	–	–	12,181	–	–	13/02/2015	13/02/2015
13 Feb 2013	–	117,532	–	–	117,532	–	–	13/02/2016	13/02/2016
LTIP (see notes):									
18 Feb 2010 – 5 year	174,907	–	–	–	174,907	–	–	18/02/2015	18/02/2020
18 Feb 2010 – 3 year	174,907	–	147,621	27,286	–	2.10430	2.11800	18/02/2013	18/02/2020
14 Feb 2011 – 5 year	144,122	–	–	–	144,122	–	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	144,122	–	–	–	144,122	–	–	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	141,183	–	–	–	141,183	–	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	141,184	–	–	–	141,184	–	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	–	117,532	–	–	117,532	–	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	–	117,532	–	–	117,532	–	–	13/02/2016	13/02/2023
Retention shares:									
13 Mar 2007	45,740	–	45,740	–	–	2.10500	2.12300	13/03/2010	13/04/2013

	Outstanding options at 1 Jan 2013	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2013	Exercice price £	Closing share price on date of exercise £	Earliest exercise date	Expiry date
D A Horton									
Deferred bonus:									
23 Feb 2010	233,209	–	233,209	–	–	2.13572	2.15400	23/02/2013	23/02/2013
14 Feb 2011	188,394	–	–	–	188,394	–	–	14/02/2014	14/02/2014
13 Feb 2012	16,918	–	–	–	16,918	–	–	13/02/2015	13/02/2015
13 Feb 2013	–	176,298	–	–	176,298	–	–	13/02/2016	13/02/2016
LTIP (see notes):									
18 Feb 2010 – 5 year	363,207	–	–	–	363,207	–	–	18/02/2015	18/02/2020
18 Feb 2010 – 3 year	363,207	–	306,546	56,661	–	2.10400	2.11200	18/02/2013	18/02/2020
14 Feb 2011 – 5 year	307,460	–	–	–	307,460	–	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	307,460	–	–	–	307,460	–	–	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	292,825	–	–	–	292,825	–	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	292,826	–	–	–	292,826	–	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	–	210,823	–	–	210,823	–	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	–	210,822	–	–	210,822	–	–	13/02/2016	13/02/2023
Retention shares:									
09 Oct 2007	261,025	–	261,025	–	–	2.02940	2.03500	09/10/2010	09/11/2013
SAYE:									
2012	8,100	–	–	–	8,100	1.11100	–	01/07/2015	01/01/2016
N P Maidment									
Deferred bonus:									
23 Feb 2010	186,567	–	186,567	–	–	2.13572	2.15400	23/02/2013	23/02/2013
14 Feb 2011	150,715	–	–	–	150,715	–	–	14/02/2014	14/02/2014
13 Feb 2012	13,534	–	–	–	13,534	–	–	13/02/2015	13/02/2015
13 Feb 2013	–	132,223	–	–	132,223	–	–	13/02/2016	13/02/2016
LTIP (see notes):									
18 Feb 2010 – 5 year	209,888	–	–	–	209,888	–	–	18/02/2015	18/02/2020
18 Feb 2010 – 3 year	209,888	–	177,145	32,743		2.10400	2.11200	18/02/2013	18/02/2020
14 Feb 2011 – 5 year	172,946	–	–	–	172,946	–	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	172,946	–	–	–	172,946	–	–	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	164,714	–	–	–	164,714	–	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	164,714	–	–	–	164,714	–	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	–	118,634	–	–	118,634	–	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	–	118,634	–	–	118,634	–	–	13/02/2016	13/02/2023
SAYE:									
2010	10,591		10,591	–		0.85680	2.23000	01/07/2013	01/01/2014
2013	–	5,311	–	–	5,311	1.69440	–	01/07/2016	01/01/201

	Outstanding options at 1 Jan 2013	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2013	Exercice price £	Closing share price on date of exercise £	Earliest exercise date	Expiry date
M L Bride									
Deferred bonus:									
23 Feb 2010	93,284	–	93,284	–	–	2.13572	2.15400	23/02/2013	23/02/2013
14 Feb 2011	94,197	–	–	–	94,197	–	–	14/02/2014	14/02/2014
13 Feb 2012	12,181	–	–	–	12,181	–	–	13/02/2015	13/02/2015
13 Feb 2013	–	88,149	–	–	88,149	–	–	13/02/2016	13/02/2016
LTIP (see notes):									
27 Apr 2009	100,000	–	100,000	–	–	2.10400	2.11200	27/04/2011	27/04/2019
18 Feb 2010 – 5 year	174,907	–	–	–	174,907	–	–	18/02/2015	18/02/2020
18 Feb 2010 – 3 year	174,907	–	147,621	27,286	–	2.10400	2.11200	18/02/2013	18/02/2020
14 Feb 2011 – 5 year	144,122	–	–	–	144,122	–	–	14/02/2016	14/02/2021
14 Feb 2011 – 3 year	144,122	–	–	–	144,122	–	–	14/02/2014	14/02/2021
30 Mar 2012 – 5 year	141,183	–	–	–	141,183	–	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	141,184	–	–	–	141,184	–	–	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	–	110,186	–	–	110,186	–	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	–	110,186	–	–	110,186	–	–	13/02/2016	13/02/2023
Conditional Share Awards									
27 Apr 2009	112,500	–	37,500	–	75,000	2.2330	2.23600	27/04/2012	27/05/2015
SAYE:									
2010	10,591	–	10,591	–	–	0.85680	2.23000	01/07/2013	01/01/2014
2013	–	5,311	–	–	5,311	1.69440	–	01/07/2016	01/01/2017

Notes to share plan interests table

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

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

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

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

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

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

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

8 Share prices. The market price of Beazley ordinary shares at 31 December 2013 was 271.9p and the range during the year was 179.2p to 272.2p.

Annual general meeting

At the forthcoming annual general meeting to be held on 26 March 2014 a binding resolution will be proposed to approve the directors' remuneration policy and an advisory resolution to approve this annual remuneration report.

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

By order of the board

Padraic O'Connor
Chairman of the remuneration committee

5 February 2014

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

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

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

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

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

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

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

D Holt
Chairman

M L Bride
Finance director

5 February 2014

Independent auditor's report to the members of Beazley plc

Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified

We have audited the financial statements of Beazley plc ('Beazley') for the year ended 31 December 2013 which comprise the consolidated statement of profit or loss, the consolidated and parent company statements of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity and the related notes. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the parent company financial statements have been prepared in accordance with the Companies (Jersey) Law 1991.

Our assessment of risks of material misstatement

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

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

Valuation of insurance liabilities ($4,577.3m gross, $3,399.1m net)

Refer to pages 68 to 69 (audit committee report), pages 111 and 113 (accounting policy) and pages 150 to 159 (financial disclosures).

The risk:

- 87% of the group's liabilities relate to insurance liabilities. The valuation of insurance liabilities remains the most significant inherent risk in our audit. The most critical estimate included in insurance liabilities is the estimate for insurance losses incurred but not reported, for which the gross estimate is $2,597.5m and the net estimate is $1,872.8m as at 31 December 2013. The level of subjectivity in the estimated impact of uncertain or unknown future events; the diversity of risks written by Beazley, and therefore the granular level of reserving that occurs at class of business level; the nature of the specialist classes of business that Beazley underwrites; and particular uncertainty as regards the exposure to extreme losses in the catastrophe book and reserving for new products all serve to increase the level of judgement required and subjectivity inherent in the estimation of insurance liabilities.

Our response:
In this area, our audit procedures included, among others:

- evaluation and testing of key controls around the actuarial reserving process and the data used to determine the quantum of both gross and net insurance liabilities. This included considerations of matters raised in reserving and underwriting committee meetings;
- use of our own actuarial specialists to support us in our evaluation of insurance liabilities and in particular the estimate for insurance losses incurred but not reported, and our conclusions over whether the amount calculated by the group lies within an acceptable range;
- re-projection on a gross and net basis (based on quarter 3 data then rolled forward for quarter 4) using our own models for selected significant classes of business, including marine, property and specialty. We also considered the consistency of the basis for the margin applied to the actuarial estimate year-on-year;
- discussion and consideration of the reserving assumptions and methodology applied for prudence and consistency, and benchmarking to identify any outliers against our experience of similar accounts in the market place. Any outliers were then followed up through discussions with the group; and
- consideration of the quality of historic reserving exercises by tracking the outcome of prior years' liabilities provisions by reference to subsequent outturn.

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

Refer to page 69 (audit committee report), pages 115 to 116 (accounting policy) and pages 143 to 146 (financial disclosures).

The risk:
- The group holds and manages a significant investment portfolio to meet its obligations under insurance contracts and for shareholder investment purposes. The size of the portfolio; the exposure to hedge funds; and the strategy employed to increase the allocation of assets with a higher credit risk to improve investment return all contribute to making the existence and valuation of investments a key areas of focus within our audit. The use and oversight of outsourced service providers remains a key element of the group's approach to investment management.

Our response:
In this area, our audit procedures included, among others:
- assessment of the group's controls for monitoring performance of investments and the data integrity of the investment records;
- assessment of the identification and subsequent resolution of differences in custodian reconciliations;
- receipt of external confirmations from custodians of the listed investment portfolio;
- performance of independent pricing and credit rating checks;
- inspection of the hedge fund managers' valuation reports and consideration of the historical accuracy of these pricing estimates by reference to realized amounts. We discussed any potential valuation issues with management; and
- assessment of the allocation of assets into the fair value hierarchy in note 16, placing specific emphasis on the hedge funds and higher credit risk assets where a greater degree of judgment is required in this allocation. Note 16 provides a description of how the Group values its investments, through application of the fair value hierarchy, as required by accounting standards.

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

Refer to page 69 (audit committee report), pages 110 to 119 (accounting policy) and pages 139 to 166 (financial disclosures).

The risk:
- The risks in these areas include the valuation of reinsurance assets and insurance receivables, being the recoverability of insurance and reinsurance debtors (notes 18, 19 and 24), the valuation of Intangible assets (note 12) and the appropriateness of premium estimates. All of these balances require judgement to be applied by the group to the valuation and, in terms of processing, require manual adjustments to be made, which we consider on a substantive basis.

Our response:
As well as the procedures conducted over the insurance liabilities on a net basis, our specific audit procedures to address the risks set out above included, among others:

Reinsurance assets and insurance receivables
- evaluation and testing of key controls over the processes designed to record and monitor insurance and reinsurance debtors;
- inspection of management's aged analysis for recoveries as at 31 December 2013;
- understanding the terms of the reinsurance programmes in place and conducting relevant substantive procedures and analytical reviews to assess the reasonableness of the reinsurance assets relative to gross provisions;
- benchmarking with other market participants where possible (e.g. to consider the bad debt provision percentages applied to counterparties) and against past experience; and
- inspection of the manual adjustments substantively, checking back to supporting documentation.

Intangible assets
- challenge of cash flow models employed by the group in the context of our wider understanding of the business and its strategy; and
- critical assessment of the discount rates, assumed growth factors and terminal growth rates applied in the calculation of all impairment calculations.

Premium estimates
- evaluation of controls around premium estimates across the different lines of business;
- involvement of our actuarial specialists in assessing these amounts where the nature or calculation of the amounts is complex and/or judgmental;
- critical assessment of the approximations involved in recording business written by binders to ensure the methodology remained appropriate in the context of the timing of business written throughout the year; and
- inspection of the manual adjustments substantively, checking back to supporting documentation.

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

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

Materiality is a term used to describe the acceptable level of precision in financial statements. Auditing standards describe a misstatement or an omission as 'material' if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We identify a monetary amount as 'materiality for the financial statements as a whole' based on this criteria and apply the concept of materiality in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming our opinion on them.

The materiality for the group financial statements as a whole was set at $20m. This has been calculated with reference to a benchmark of group gross written premiums (of which it represents 1%) which we have determined, in our professional judgment, to be one of the principal considerations for members of the company in assessing the financial performance of the group. In assessing for balances other than the insurance and reinsurance technical balances we set materiality more conservatively at $10m.

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

Audit work to support this opinion is directed by the engagement partner, who signs this report on behalf of the firm, and in the light of the extent of the group's activities in London, is undertaken primarily by an audit team in London. The audit team in London is led by an audit partner who, together with the engagement partner, attends the audit and risk committee meetings. In addition, we engaged a KPMG audit team in the US, where Beazley Insurance Company Inc. writes insurance business totaling approximately 8% of gross written premium, to perform specified procedures over certain key balances that we judged to be significant to the group financial statements. For purposes of the 2013 year end, we did not deem the operations in other overseas territories to be significant enough to require auditing for group reporting purposes.

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

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

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

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

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

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

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

The Listing Rules require us to review:
- the directors' statement, set out on page 58, in relation to going concern; and
- the part of the corporate governance statement on page 65 relating to the parent company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

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

Responsibilities of our report, responsibilities and restriction on use

As explained more fully in the directors' responsibilities statement set out on page 99, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group and parent company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

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

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

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

Our report is made solely to the parent company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the Parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

5 February 2014

Financial statements

105 Consolidated statement of profit or loss
106 Statement of comprehensive income
107 Statement of changes in equity
108 Statements of financial position
109 Statements of cash flows
110 Notes to the financial statements
167 Glossary

Consolidated statement of profit or loss

for the year ended 31 December 2013

	Notes	2013 $m	2012 $m
Gross premiums written	3	1,970.2	1,895.9
Written premiums ceded to reinsurers		(293.7)	(353.2)
Net premiums written	3	**1,676.5**	**1,542.7**
Change in gross provision for unearned premiums		(64.2)	(82.5)
Reinsurer's share of change in the provision for unearned premiums		(21.8)	18.3
Change in net provision for unearned premiums		**(86.0)**	**(64.2)**
Net earned premiums	3	**1,590.5**	**1,478.5**
Net investment income	4	43.3	82.6
Other income	5	36.4	24.7
		79.7	**107.3**
Revenue		**1,670.2**	**1,585.8**
Insurance claims		877.1	902.8
Insurance claims recoverable from reinsurers		(158.0)	(124.4)
Net insurance claims	3	**719.1**	**778.4**
Expenses for the acquisition of insurance contracts	3	431.5	408.5
Administrative expenses	3	187.8	155.0
Foreign exchange loss/(gain)	3	3.0	(11.0)
Operating expenses		**622.3**	**552.5**
Expenses	3	**1,341.4**	**1,330.9**
Share of loss in associates	14	(0.3)	(0.5)
Results of operating activities		**328.5**	**254.4**
Finance costs	8	(15.2)	(3.2)
Profit before income tax		**313.3**	**251.2**
Income tax expense	9	(49.3)	(36.6)
Profit for the year attributable to equity shareholders		**264.0**	**214.6**
Earnings per share (cents per share):			
Basic	10	52.4	42.4
Diluted	10	51.2	41.3
Earnings per share (pence per share):			
Basic	10	33.6	26.7
Diluted	10	32.8	26.0

Statement of comprehensive income

for the year ended 31 December 2013

	2013 $m	2012 (restated)* $m
Group		
Profit for the year attributable to equity shareholders	264.0	214.6
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Loss on remeasurement of retirement benefit obligations	(3.1)	(1.8)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	3.1	2.3
Total other comprehensive income	–	0.5
Total comprehensive income recognised	**264.0**	**215.1**

* The restatement is in respect of the changes to IAS 19. For further information see note 1.

Statement of comprehensive income

for the year ended 31 December 2013

	2013 $m	2012 $m
Company		
Profit for the year attributable to equity shareholders	112.7	43.0
Total comprehensive income recognised	**112.7**	**43.0**

Statement of changes in equity

for the year ended 31 December 2013

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings (restated)* $m	Total $m
Group							
Balance at 1 January 2012		**42.8**	**1.1**	**(88.5)**	**(50.1)**	**1,160.3**	**1,065.6**
Total comprehensive income recognised		–	–	2.3	–	212.8	215.1
Dividends paid		–	–	–	–	(65.1)	(65.1)
Issue of shares	21	0.2	1.6	–	(0.2)	–	1.6
Equity settled share based payments	22	–	–	–	12.4	–	12.4
Acquisition of own shares in trust	22	–	–	–	(25.1)	–	(25.1)
Reclassification of reserves	22	–	9.3	–	(9.7)	0.4	–
Cancellation of treasury shares	22	(1.4)	–	–	30.1	(28.7)	–
Balance at 31 December 2012		**41.6**	**12.0**	**(86.2)**	**(42.6)**	**1,279.7**	**1,204.5**
Total comprehensive income recognised		–	–	3.1	–	260.9	264.0
Dividends paid		–	–	–	–	(129.9)	(129.9)
Equity settled share based payments	22	–	–	–	19.1	(2.1)	17.0
Acquisition of own shares in trust	22	–	–	–	(17.7)	–	(17.7)
Transfer of shares to employees	22	–	–	–	3.4	(2.6)	0.8
Balance at 31 December 2013		**41.6**	**12.0**	**(83.1)**	**(37.8)**	**1,406.0**	**1,338.7**

* The restatement is in respect of the changes to IAS 19. For further information see note 1.

Statement of changes in equity

for the year ended 31 December 2013

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2012		**42.8**	**1.1**	**(35.9)**	**(59.3)**	**775.3**	**724.0**
Total comprehensive income recognised		–	–	–	–	43.0	43.0
Dividends paid		–	–	–	–	(65.1)	(65.1)
Issue of shares	21	0.2	1.6	–	(0.2)	–	1.6
Equity settled share based payments	22	–	–	–	12.4	–	12.4
Acquisition of own shares in trust	22	–	–	–	(25.1)	–	(25.1)
Reclassification of reserves	22	–	9.3	–	(9.7)	0.4	–
Cancellation of treasury shares	22	(1.4)	–	–	30.1	(28.7)	–
Balance at 31 December 2012		**41.6**	**12.0**	**(35.9)**	**(51.8)**	**724.9**	**690.8**
Total comprehensive income recognised		–	–	–	–	112.7	112.7
Dividends paid		–	–	–	–	(129.9)	(129.9)
Equity settled share based payments	22	–	–	–	19.1	(2.1)	17.0
Acquisition of own shares in trust	22	–	–	–	(17.7)	–	(17.7)
Transfer of shares to employees	22	–	–	–	3.4	(2.6)	0.8
Balance at 31 December 2013		**41.6**	**12.0**	**(35.9)**	**(47.0)**	**703.0**	**673.7**

Statements of financial position

as at 31 December 2013

	Notes	2013 Group $m	2013 Company $m	2012 Group $m (restated)*	2012 Company $m
Assets					
Intangible assets	12	91.6	–	115.1	–
Plant and equipment	13	6.0	1.1	7.0	1.4
Investment in subsidiaries	31	–	747.2	–	747.2
Investment in associates	14	8.4	–	10.0	1.4
Deferred acquisition costs	15	206.0	–	185.0	–
Deferred tax asset	28	8.7	–	11.0	–
Reinsurance assets	19, 24	1,178.2	–	1,187.3	–
Financial assets at fair value**	16	4,043.6	–	4,005.4	–
Insurance receivables	18	617.7	–	578.0	–
Current income tax asset		–	–	1.2	–
Other receivables		41.7	49.2	32.4	61.9
Cash and cash equivalents**	20	382.7	1.2	316.5	1.3
Total assets		**6,584.6**	**798.7**	**6,448.9**	**813.2**
Equity					
Share capital	21	41.6	41.6	41.6	41.6
Share premium		12.0	12.0	12.0	12.0
Foreign currency translation reserve		(83.1)	(35.9)	(86.2)	(35.9)
Other reserves	22	(37.8)	(47.0)	(42.6)	(51.8)
Retained earnings*		1,406.0	703.0	1,279.7	724.9
Total equity		**1,338.7**	**673.7**	**1,204.5**	**690.8**
Liabilities					
Insurance liabilities	24	4,577.3	–	4,483.8	–
Financial liabilities	16, 25	274.9	123.0	315.0	120.5
Retirement benefit liability*	27	2.4	–	0.7	–
Deferred tax liabilities	28	65.0	–	84.0	–
Current income tax liability		18.5	0.2	–	–
Other payables	26	307.8	1.8	360.9	1.9
Total liabilities		**5,245.9**	**125.0**	**5,244.4**	**122.4**
Total equity and liabilities		**6,584.6**	**798.7**	**6,448.9**	**813.2**

* The restatement is in respect of the changes to IAS 19. For further information see note 1.

** Deposits to the value of $307.3m (2012: $320.0m) managed centrally by Lloyd's are now included in financial assets and no longer classified as cash and cash equivalents.

The financial statements were approved by the board of directors on 5 February 2014 and were signed on its behalf by:

D Holt
Chairman

M L Bride
Finance director

5 February 2014

Statements of cash flows

for the year ended 31 December 2013

	Notes	2013 Group $m	2013 Company $m	2012 Group $m	2012 Company $m
Cash flow from operating activities					
Profit before income tax		**313.3**	**112.7**	**251.2**	**43.0**
Adjustments for:					
Amortisation of intangibles	12	14.2	–	15.0	–
Equity settled share based compensation	22	19.1	19.1	12.4	12.4
Net fair value gains on financial assets		15.0	–	(17.3)	–
Loss in associate	14	0.3	–	0.5	–
Depreciation of plant and equipment	13	2.4	0.2	2.9	0.4
Impairment of reinsurance assets (written back)/recognised	**6**	(3.5)	–	2.3	–
Impairment loss recognised on intangible assets	**12**	11.5	–	–	–
Impairment loss recognised on investment in associates		1.4	1.4	–	–
Increase/(decrease) in insurance and other liabilities		37.1	1.3	157.4	(29.0)
(Increase)/decrease in insurance, reinsurance and other receivables		(36.4)	12.7	(21.5)	(61.9)
Increase in deferred acquisition costs		(21.0)	–	(25.3)	–
Financial income	4	(68.7)	–	(77.0)	–
Financial expense	8	17.3	6.7	16.1	1.8
Profit on debt buyback	8	(2.1)	–	(12.9)	–
Income tax paid		(46.4)	–	(22.7)	–
Net cash from/(used in) operating activities		**253.5**	**154.1**	**281.1**	**(33.3)**
Cash flow from investing activities					
Purchase of plant and equipment	13	(1.5)	–	(2.6)	(0.3)
Expenditure on software development	12	(5.1)	–	(5.8)	–
Purchase of investments*		(3,079.5)	–	(4,668.1)	–
Proceeds from sale of investments		3,026.3	–	4,267.7	–
Investment in associate	14	(0.1)	–	(1.6)	–
Interest and dividends received		68.7	–	77.0	–
Net cash from/(used in) investing activities		**8.8**	–	**(333.4)**	**(0.3)**
Cash flow from financing activities					
Proceeds from issue of shares		–	–	1.6	1.6
Acquisition of own shares in trust	22	(17.7)	(17.7)	(25.1)	(25.1)
Proceeds from issue of debt	25	–	–	121.0	121.0
Repayment of borrowings	25	(39.5)	–	(66.7)	–
Interest paid		(13.5)	(6.7)	(14.3)	–
Dividends paid		(129.9)	(129.9)	(65.1)	(65.1)
Net cash (used in)/from financing activities		**(200.6)**	**(154.3)**	**(48.6)**	**32.4**
Net increase/(decrease) in cash and cash equivalents		61.7	(0.2)	(100.9)	(1.2)
Cash and cash equivalents at beginning of year*		316.5	1.3	419.2	2.5
Effect of exchange rate changes on cash and cash equivalents		4.5	0.1	(1.8)	–
Cash and cash equivalents at end of year*	20	**382.7**	**1.2**	**316.5**	**1.3**

* Deposits to the value of $307.3m (2012: $320.0m) managed centrally by Lloyd's are now included in financial assets and no longer classified as cash and cash equivalents.

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 2013 comprise the parent company and its subsidiaries and the group's interest in associates.

Both the financial statements of the parent company, Beazley plc, and the group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs'). On publishing the parent company financial statements together with the group financial statements, the company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

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

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: Amendment: Offsetting financial assets and financial liabilities;
- IFRS 13: Fair value measurement;
- IAS 1: Amendment: Presentation of other items of comprehensive income; and
- IAS 19: Amendment: Defined benefit plans.

IFRS 7 was amended to provide expanded disclosures relating to offsetting financial assets and financial liabilities. In particular, the disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs. In accordance with the transitional provisions of IFRS 13, the group has applied the new fair value measurement guidance prospectively. Notwithstanding the above, the change had no significant impact on the measurements of the group's assets and liabilities. However, additional disclosures have been made in these financial statements.

As a result of the amendments to IAS 1, the group has modified the presentation of items of other comprehensive income in its consolidated statement of comprehensive income, to present separately items that would be reclassified to profit and loss in the future from those that would never be and have renamed the income statement to the statement of profit or loss. Comparative information has also been re-presented accordingly. The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the group.

IAS 19 was amended effective 1 January 2013, the applicable impact being that actuarial gains and losses that have previously not been recognised in accordance with the 'corridor method' permitted in the old standard must be reflected in financial statements for both the current and prior reporting periods. The impact of this change is a restatement of the pension asset, in respect of the defined benefit pension scheme, in the statement of financial position with a corresponding restatement in the statement of comprehensive income and statement of changes in equity to the value of $7.2m as at 31 December 2012 ($5.4m as at 1 January 2012). The restatement results in the pension asset being disclosed as a pension liability in the statement of financial position from 1 January 2012. The impact of the amendment to IAS 19 is the only change to the statement of financial position as at 31 December 2011 and the impact is highlighted above. Accordingly, no statement of financial position as at 31 December 2011 have been prepared and presented.

Under the amended IAS 19, the group also determines the net interest expense/(income) for the period on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the defined liability/(asset) now comprises:
- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

Previously, the group determined interest income on plan assets based on their long-term rate of expected return. The impact of this change is not large enough to change the numbers reported in the statement of profit or loss for the year ended 31 December 2012 and therefore no restatement have been disclosed.

1 Statement of accounting policies *continued*

The following is a list of standards that are in issue but are not effective in 2013, but have been endorsed for use in the EU, together with the effective date of application to the group:
- IFRS 10: Consolidated financial statements (effective 1 January 2014);
- IFRS 11: Joint arrangements (effective 1 January 2014);
- IFRS 12: Disclosure of interests in other entities (effective 1 January 2014);
- IAS 19: Amendment: Defined benefit plans: Employee Contributions (effective 1 July 2014)
- IAS 27: Amendment: Separate financial statements (effective 1 January 2014);
- IAS 28: Amendment: Investments in associates and joint ventures (effective 1 January 2014);
- IAS 32: Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2014);
- IAS 36: Amendment: Recoverable amount disclosures for non-financial assets (effective 1 January 2014);
- IAS 39: Amendment: Novation of derivatives and continuation of hedge accounting. (effective 1 January 2014); and
- IFRIC 21: Levies.

In addition, improvements to IFRSs (effective 1 January 2014) are in issue but are not effective in 2013, and have not yet been endorsed for use in the EU.

The implications of these standards and interpretations are under review.

Basis of presentation

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

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

Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in the following notes:
- note 12: Intangible assets (assumptions underlying recoverable amounts);
- note 16: Financial assets and liabilities (valuations based on models and unobservable inputs);
- note 23: Equity compensation plans (assumptions used to calculate fair value of share options granted);
- note 24: Insurance liabilities and reinsurance assets (estimates for losses incurred but not reported); and
- note 27: Retirement benefit obligations (actuarial assumptions).

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported. The total estimate net of reinsurers' share as at 31 December 2013 is $1,872.8m (2012: $1,833.9m) and is included within total insurance liabilities in the statement of financial position.

Consolidation

a) Subsidiary undertakings

Subsidiary undertakings, which are those entities over which the group, directly or indirectly, has the power to exercise control over financial and operating policies so as to obtain benefits from their activities, have been consolidated. They are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control ends.

1 Statement of accounting policies *continued*

The group has used the acquisition method of accounting for business combinations arising on the purchase of subsidiaries. Under this method, the cost of acquisition is measured as the fair value of assets given, shares issued or liabilities undertaken at the date of acquisition directly attributable to the acquisition. The excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as goodwill. The accounting treatment of acquisition expenses per IFRS 3 (2008) has changed; however as the group applies the revised standard prospectively to all business combinations from 1 January 2010 there is no impact on accounting for the acquisition of subsidiaries made in previous periods.

For all business combinations from 1 January 2010:
(i) Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination, are expensed as incurred.
(ii) In addition, any consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.
(iii) Any contingent consideration is measured at fair value at the acquisition date.

Equity financial investments made by the parent company in subsidiary undertakings and associates are stated at cost in its separate financial statements and are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired.

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

b) Associates

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

Investments in associates are accounted for using the equity method of accounting. Under this method the investments are initially measured at cost and the group's share of post-acquisition profits or losses is recognised in the statement of profit or loss. Therefore the cumulative post-acquisition movements in the associates' net assets are adjusted against the cost of the investment.

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

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

c) Intercompany balances and transactions

All intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated in the group financial statements. Transactions and balances between the group and associates are not eliminated.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of the parent and the subsidiaries are measured using the currency of the primary economic environment in which the relevant entity operates (the 'functional currency'). The group financial statements are presented in US dollars, being the functional and presentation currency of the parent and its main trading subsidiaries.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the group considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

1 Statement of accounting policies *continued*

c) Group companies

The results and financial position of the group companies that have a functional currency different from the group presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate ruling at the statement of financial position date;
- income and expenses for each statement of profit or loss are translated at average exchange rates for the reporting period where this is determined to be a reasonable approximation of the actual transaction rates; and
- all resulting exchange differences are recognised in other comprehensive income as a separate component of equity.

On disposal of foreign operations cumulative exchange differences previously recognised in other comprehensive income are recognised in the statement of profit or loss as part of the gain or loss on disposal.

Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause Beazley to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Net earned premiums

a) Premiums

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

b) Unearned premiums

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

Deferred acquisition costs (DAC)

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

Claims

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

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

Liability adequacy testing

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

Ceded reinsurance

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

1 Statement of accounting policies *continued*

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

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

Revenue

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

Managing agent's fees are recognised as the services are provided. Profit commissions are recognised as profit is earned.

Dividends paid

Dividend distribution to the shareholders of the group is recognised in the period in which the dividends are paid, as a first interim dividend, second interim dividend or special dividend, and approved by the group's shareholders at the group's annual general meeting.

Plant and equipment

All plant and equipment is recorded at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

Fixtures and fittings	Three to ten years
Computer equipment	Three years.

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

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may be impaired. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment and the difference is charged to the statement of profit or loss.

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Goodwill has an indefinite life and is annually tested for impairment. Goodwill is allocated to each cash-generating unit (being the group's operating segments) for the purpose of impairment testing. Goodwill is impaired when the net carrying amount of the relevant cash-generating unit (CGU) exceeds its recoverable amount, being the higher of its value in use and fair value less costs to sell. Value in use is defined as the present value of the future cash flows expected to be derived from the CGU. On transition to IFRS at 1 January 2004, any goodwill previously amortised or written off was not reinstated.

In respect of equity accounted associates, the carrying amount of any goodwill is included in the carrying amount of the associate, and any impairment is allocated to the carrying amount of the associate as a whole.

b) Syndicate capacity

The syndicate capacity represents the cost of purchasing the group's participation in the combined syndicates. The capacity is capitalised at cost in the statement of financial position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment by reference to the expected future profit streams to be earned by those syndicates in which the group participates, namely 2623, 3622 and 3623, and provision is made for any impairment.

c) Licences

Licences have an indefinite useful life and are initially recorded at fair value. Licences are annually tested for impairment and provision is made for any impairment when the recoverable amount, being the higher of its value in use and fair value, is less than the carrying value.

1 Statement of accounting policies *continued*

d) IT development costs
Costs that are directly associated with the development of identifiable and unique software products and that are anticipated to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include external consultants' fees, certain qualifying internal staff costs and other costs incurred to develop software programs. These costs are amortised over their estimated useful life (three years) on a straight-line basis subject to impairment. Other non-qualifying costs are expensed as incurred.

e) Renewal rights
Renewal rights comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The costs directly attributable to acquire the renewal rights are recognised as intangible assets where they can be measured reliably and it is probable that they will be recovered by directly related future profits. These costs are subject to impairment and are amortised on a straight-line basis, based on the estimated useful life of the assets, which is estimated to be between five and ten years.

Financial instruments

Financial instruments are recognised in the statement of financial position at such time as the group becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the group commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the group's obligations specified in the contract expire, are discharged or cancelled.

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

b) Financial assets at fair value through profit or loss
Except for derivative financial instruments and other financial assets listed below, all financial assets are designated as fair value through the statement of profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group's key management. The group's investment strategy is to invest and evaluate their performance with reference to their fair values.

c) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost less any impairment losses.

d) Fair value measurement
Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the group establishes fair value using a valuation technique. Valuation techniques include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

1 Statement of accounting policies *continued*

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, ie the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the group believes a third-party market participant would take them into account in pricing a transaction.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the statement of profit or loss when incurred. Financial assets at fair value through profit or loss are continually measured at fair value, and changes therein are recognised in the statement of profit or loss. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately as set out below.

e) Hedge funds and regulated equity linked funds

The group invests in a number of hedge funds and regulated equity linked funds for which there are no available quoted market prices. The valuation of these hedge funds is based on fair value techniques (as described above). The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds. Consideration is also given to adjusting such NAV valuations for any restriction applied to distributions, the existence of side pocket provisions, and the timing of the latest available valuations.

f) Insurance receivables and payables

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

g) Other receivables

Other receivables are carried at amortised cost less any impairment losses.

h) Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the statement of profit or loss. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest is recognised separately on an amortised cost basis using the effective interest rate method for financial assets at fair value through the statement of profit or loss. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

1 Statement of accounting policies *continued*

i) Borrowings

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

Finance costs comprise interest, fees paid for the arrangement of debt and letter of credit facilities and commissions charged for the utilisation of letters of credit. These costs are recognised in the statement of profit or loss using the effective interest method.

In addition, finance costs include gains on the early redemption of the group's borrowings. These gains are recognised in the statement of profit or loss, being the difference between proceeds paid plus related costs and the carrying value of the borrowings redeemed.

j) Other payables

Other payables are stated at amortised cost determined on the effective interest rate method.

k) Hedge accounting and derivative financial instruments

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

The group has not designated any derivatives as fair value hedges, cash flow hedges or net investment hedges.

l) Impairment of financial assets

The group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. The group assesses at each reporting date whether there is objective evidence that a specific financial asset measured at amortised cost is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset that can be reliably estimated. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the statement of profit or loss.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

m) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are classified as loans and receivables and carried at amortised cost less any impairment losses.

1 Statement of accounting policies *continued*

Operating leases

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

Employee benefits

a) Pension obligations

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

The group also determines the net interest expense/(income) for the period on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the defined liability/(asset) now comprises:
- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

Net interest expense/(income) is recognised in the statement of profit or loss.

Past service costs are recognised immediately in the statement of profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the ‘vesting period’). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

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

b) Share-based compensation

The group offers option plans over Beazley plc’s ordinary shares to certain employees, including the SAYE scheme, details of which are included in the directors’ remuneration report.

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and retained earnings. When the options are exercised and the shares are granted from the employee share trust, the proceeds received, net of any transaction costs, are credited to the employee share trust reserve and retained earnings.

1 Statement of accounting policies *continued*

Income taxes

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

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

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

Deferred tax assets are recognised in the statement of financial position to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares such as share options granted to employees. Share options with performance conditions attaching to them have been excluded from the weighted average number of shares to the extent that these conditions have not been met at the reporting date.

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

Provisions and contingencies

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

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

2 Risk management

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

The symbol ▪ by a heading indicates that the information in that section has not been audited.

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

a) Underwriting risk
Underwriting risk comprises four elements that apply to all insurance products offered by the group:
- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

We manage and model these four elements in the following three categories; attritional claims, large claims and catastrophe events.

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

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

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

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

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

The group uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The range of scenarios considered includes natural catastrophe, marine, liability, political, terrorism and war events.

2 Risk management *continued*

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible the group measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

The group's high-level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The board may adjust these limits over time as conditions change. In 2013 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 year US event of $574m net of reinsurance. The catastrophe risk appetite increased by 6% in 2013 from $541m in 2012, in line with the group's five year strategic plan.

Lloyd's has also defined its own specific set of realistic disaster scenario (RDS) events for which all syndicates with relevant exposures must report. Of these the three largest, net of reinsurance, events which impact Beazley in 2012 and 2013 are:

Unaudited

Lloyd's prescribed natural catastrophe event	2013 Modelled PML (before reinsurance) $m	2013 Modelled PML (after reinsurance) $m
San Francisco quake (2013: $78bn)	633.5	263.2
Gulf of Mexico windstorm (2013: $112bn)	515.5	274.9
US Northeast windstorm (2013: $78bn)	478.1	291.1

Unaudited

Lloyd's prescribed natural catastrophe event	2012 Modelled PML (before) reinsurance) $m	2012 Modelled PML (after) reinsurance) $m
Los Angeles quake (2012: $78bn)	721.2	273.2
Gulf of Mexico windstorm (2012: $112bn)	475.2	276.3
US Northeast windstorm (2012: $78bn)	418.4	283.3

The net of reinsurance exposures to the above Lloyd's RDS events have remained stable during 2013 across the account as a whole. In our reinsurance division, additional business written has led to an increase in gross and net exposures. In the property division, the exposures net of reinsurance have reduced as the catastrophe reinsurance programme purchased in 2013 was one single tower, instead of two towers in 2012, which has reduced the overall net retention. The largest movement in our top RDS events is the Los Angeles quake event which has reduced from $273.2m in 2012 to $246.7m in 2013 as a result of a reduction in exposure in our property division.

The net exposure of the group to each of these modelled events at a given point in time is a function of assumptions made about how, where and the magnitude of the event that occurs, the amount of business written that is exposed to each event and the reinsurance arrangements in place.

2 Risk management *continued*

To manage underwriting exposures, the group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2013, the normal maximum line that any one underwriter could commit the managed syndicates to was $100m. In most cases, maximum lines for classes of business were much lower than this.

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters and peer review for all risks exceeding individual underwriters' authority limits. Exception reports are also run regularly to monitor compliance.

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

Binding authority contracts

A proportion of the group's insurance risks are transacted by third parties under delegated underwriting authorities. Each third party is thoroughly vetted by our coverholder approval group before it can bind risks, and is subject to rigorous monitoring to maintain underwriting quality and confirm ongoing compliance with contractual guidelines.

Operating divisions

In 2013, the group's business consisted of six operating divisions. The following table provides a breakdown of gross written premiums by division, and also provides a geographical split based on placement of risk.

2013	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	5%	–	5%
Marine	16%	–	16%
Political risks & contingency	7%	–	7%
Property	19%	–	19%
Reinsurance	11%	–	11%
Specialty lines	34%	8%	42%
Total	**92%**	**8%**	**100%**

2012	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	5%	–	5%
Marine	16%	–	16%
Political risks & contingency	6%	–	6%
Property	20%	–	20%
Reinsurance	10%	–	10%
Specialty lines	35%	8%	43%
Total	**92%**	**8%**	**100%**

2 Risk management *continued*

b) Reinsurance risk

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

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

The reinsurance security committee (RSC) examines and approves all reinsurers to ensure that they possess suitable security. The group's ceded reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts and monitors and instigates our responses to any erosion of the reinsurance programmes.

c) Claims management risk

Claims management risk may arise within the group in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the group brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The group's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

d) Reserving and ultimate reserves risk

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

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

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

2.2 Market risk

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

a) Foreign exchange risk

The functional currency of Beazley plc and its main trading entities is the US dollar and the presentation currency in which the group reports its consolidated results is the US dollar. The effect of this on foreign exchange risk is that the group is mainly exposed to fluctuations in exchange rates for non-dollar denominated transactions and to net asset translation risk on non-dollar functional currency entities.

The group operates in four main currencies: US dollars, sterling, Canadian dollars and euros. Transactions in all currencies are converted to US dollars on initial recognition with any resulting monetary items being translated to the US dollar spot rate at the reporting date. Remaining foreign exchange risk is still actively managed as described below.

2 Risk management *continued*

In 2013, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US Dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

The group's underwriting capital is matched by currency to the principal underlying currencies of its written premiums. This helps to mitigate the risk that the group's capital required to underwrite business is not materially affected by any future movements in exchange rates.

The group also has subsidiaries with functional currencies that are different from the group's presentation currency. The effect of this on foreign exchange risk is that the group is exposed to fluctuations in exchange rates for US dollar denominated transactions and net assets arising in those foreign currency subsidiaries. It also gives rise to a currency translation exposure for the group to sterling, Hong Kong dollars, Singapore dollars and Australian dollars on translation to the group's presentational currency, although these exposures are minimal.

The following table summarises the carrying value of total assets and total liabilities categorised by the group's main currencies:

31 December 2013	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	886.8	117.3	371.4	1,375.5	5,209.1	6,584.6
Total liabilities	(888.8)	(116.3)	(345.1)	(1,350.2)	(3,895.7)	(5,245.9)
Net assets	**(2.0)**	**1.0**	**26.3**	**25.3**	**1,313.4**	**1,338.7**

31 December 2012	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	801.9	130.1	376.8	1,308.8	5,140.1	6,448.9
Total liabilities	(806.9)	(133.1)	(374.5)	(1,314.5)	(3,929.9)	(5,244.4)
Net assets	**(5.0)**	**(3.0)**	**2.3**	**(5.7)**	**1,210.2**	**1,204.5**

Sensitivity analysis

Fluctuations in the group's trading currencies against the US dollar would result in a change to profit after tax and net asset value. The table below gives an indication of the impact on profit after tax and net assets of a percentage change in the relative strength of the US dollar against the value of sterling, the Canadian dollar and the euro, simultaneously. The analysis is based on current information.

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2013 $m	2012 $m	2013 $m	2012 $m
Dollar weakens 30% against other currencies	6.4	(1.7)	12.5	(2.6)
Dollar weakens 20% against other currencies	4.3	(1.1)	8.3	(1.7)
Dollar weakens 10% against other currencies	2.1	(0.6)	4.2	(0.9)
Dollar strengthens 10% against other currencies	(2.1)	0.6	(4.2)	0.9
Dollar strengthens 20% against other currencies	(4.3)	1.1	(8.3)	1.7
Dollar strengthens 30% against other currencies	(6.4)	1.7	(12.5)	2.6

2 Risk management *continued*

b) Interest rate risk

Some of the group's financial instruments, including certain financial assets at fair value, cash and cash equivalents and borrowings, are exposed to movements in market interest rates.

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

The group also entered into interest rate futures contracts to manage the interest rate risk on bond portfolios.

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and we believe gives a better indication than maturity of the likely sensitivity of our portfolio to changes in interest rates.

Duration 31 December 2013	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,414.1	798.7	603.8	457.5	187.5	59.9	1.4	3,522.9
Cash and cash equivalents	382.7	–	–	–	–	–	–	382.7
Derivative financial instruments	2.6	–	–	–	–	–	–	2.6
Borrowings	–	–	(132.1)	–	–	(123.0)	(18.0)	(273.1)
Total	**1,799.4**	**798.7**	**471.7**	**457.5**	**187.5**	**(63.1)**	**(16.6)**	**3,635.1**

31 December 2012	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,803.8	464.7	542.3	335.7	389.9	49.4	–	3,585.8
Cash and cash equivalents	316.5	–	–	–	–	–	–	316.5
Derivative financial instruments	1.9	–	–	–	–	–	–	1.9
Borrowings	–	–	–	(176.5)	–	(120.5)	(18.0)	(315.0)
Total	**2,122.2**	**464.7**	**542.3**	**159.2**	**389.9**	**(71.1)**	**(18.0)**	**3,589.2**

Borrowings include tier 2 subordinated debt that is due in October 2026 with a first call at the group's option on October 2016. If the debt is settled when due in October 2026 the duration of the debt falls within the >10 yrs category. If the debt is called in October 2016, the duration of the debt falls within the 2-3 yrs (2012: 3-4 yrs) category. Also included in borrowings is $18m of a subordinated debt facility raised in 2004 which is unsecured. The subordinated notes are due in 2034 and have been callable at the group's option since 2009.

Sensitivity analysis

Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt securities and borrowings as well as subsequent interest receipts and payments. This would affect reported profits and net assets as indicated in the table below:

	Impact on profit after income tax for the year		Impact on net assets	
	2013 $m	2012 $m	2013 $m	2012 $m
Shift in yield (basis points)				
150 basis point increase	(68.3)	(72.8)	(68.3)	(72.8)
100 basis point increase	(45.4)	(48.6)	(45.4)	(48.6)
50 basis point increase	(22.9)	(24.3)	(22.9)	(24.3)
50 basis point decrease	22.9	24.3	22.9	24.3
100 basis point decrease	45.4	48.6	45.4	48.6

2 Risk management *continued*

c) Price risk

Financial assets and derivatives that are recognised in the statement of financial position at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

Financial assets include fixed and floating rate debt securities, hedge funds and regulated equity linked funds depending on the group's appetite for risk. The fixed income securities are well diversified across high quality, liquid securities. The price risk associated with these securities is predominantly interest, foreign exchange and credit risk related. The sensitivity to price risk that relates to the group's hedge fund investments and regulated equity linked funds are presented below. The group's hedge funds and regulated equity linked funds are limited to a small and manageable part of the total investment portfolio and the investment committee has established comprehensive guidelines, with investment managers setting out maximum investment limits, requirements for diversification across industries and limits to concentrations in any one industry or company.

Listed investments that are quoted in an active market, are recognised in the statement of financial position at quoted bid price. If the market for the investment is not considered to be active, then the group establishes fair value using valuation techniques (refer to note 16). This includes comparison of orderly transactions between market participants, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

	Impact on profit after income tax for the year		Impact on net assets	
	2013 $m	2012 $m	2013 $m	2012 $m
Change in fair value of hedge fund and regulated equity linked fund portfolios				
30% increase in fair value	130.5	107.1	130.5	107.1
20% increase in fair value	87.0	71.4	87.0	71.4
10% increase in fair value	43.5	35.7	43.5	35.7
10% decrease in fair value	(43.5)	(35.7)	(43.5)	(35.7)
20% decrease in fair value	(87.0)	(71.4)	(87.0)	(71.4)
30% decrease in fair value	(130.5)	(107.1)	(130.5)	(107.1)

2.3 Credit risk

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

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- investments – whereby issuer default results in the group losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash and cash equivalents.

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

The group limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

An approval system also exists for all new brokers, and broker performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the group's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced, incentives are in place to support these priorities.

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

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

2 Risk management *continued*

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

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

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

31 December 2013	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,303.2	219.7	–	–	–	3,522.9
– hedge funds	–	–	–	–	435.8	435.8
– regulated equity linked funds	–	–	–	–	80.5	80.5
– derivative financial instruments	–	–	–	–	4.4	4.4
Insurance receivables	–	–	–	–	617.7	617.7
Reinsurance assets	1,178.2	–	–	–	–	1,178.2
Other receivables	41.7	–	–	–	–	41.7
Cash and cash equivalents	382.7	–	–	–	–	382.7
Total	**4,905.8**	**219.7**	**–**	**–**	**1,138.4**	**6,263.9**

31 December 2012	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,330.4	255.4	–	–	–	3,585.8
– hedge funds	–	–	–	–	417.7	417.7
– derivative financial instruments	–	–	–	–	1.9	1.9
Insurance receivables	–	–	–	–	578.0	578.0
Reinsurance assets	1,173.7	–	–	–	13.6	1,187.3
Other receivables	32.4	–	–	–	–	32.4
Cash and cash equivalents	316.5	–	–	–	–	316.5
Total	**4,853.0**	**255.4**	**–**	**–**	**1,011.2**	**6,119.6**

The largest counterparty exposure within tier 1 is $471.1m of US Treasuries (2012: $593.3m).

Financial investments falling within the unrated category comprise hedge funds and regulated equity linked funds for which there is no readily available market data to allow classification within the respective tiers. Additionally, insurance receivables are classified as unrated, in accordance with Lloyd's guidelines.

Insurance receivables and other receivables balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. Insurance receivables in respect of coverholder business are credit controlled by third-party managers. We monitor third party coverholders' performance and their financial processes through the group's coverholder management team. These assets are individually impaired after considering information such as the occurrence of significant changes in the counterparties' financial position, pattern of historical payment information and disputes with counterparties.

Notes to the financial statements *continued*

2 Risk management *continued*

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment in respect of the reinsurance assets at 31 December 2013 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2012	6.8	8.9	15.7
Impairment loss recognised	1.3	1.0	2.3
Balance at 31 December 2012	8.1	9.9	18.0
Impairment loss (written back)/recognised	(3.6)	0.1	(3.5)
Balance at 31 December 2013	**4.5**	**10.0**	**14.5**

The group has insurance receivables and reinsurance assets that are past due at the reporting date. An aged analysis of these is presented below:

31 December 2013	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	22.7	7.2	2.4	7.0	39.3
Reinsurance assets	4.4	2.1	2.0	4.2	12.7

31 December 2012	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	16.9	3.2	1.6	5.0	26.7
Reinsurance assets	6.0	1.9	1.2	7.3	16.4

The total impairment in respect of reinsurance assets past due by more than 30 days at 31 December 2013 was $5.1m (2012: $5.7m).

The group believes that the unimpaired amounts that are past due more than 30 days are still collectable in full, based on historic payment behaviour and analyses of credit risk.

2.4 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios (RDS) are provided on page 121). This means that the group maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The group also makes use of loan facilities and borrowings, details of which can be found in note 25. Further information on the group's capital resources is contained on pages 42 to 43. The sources and uses of funds table on page 42 shows the level of surplus capital that the group currently holds. This is the surplus over expected working capital and regulatory capital requirements and represents a buffer that could be used to meet unforeseen costs or take advantage of new opportunities.

2 Risk management *continued*

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

31 December 2013	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Life, accident & health	48.9	20.9	1.0	0.0	70.8	0.9
Marine	108.8	87.2	29.2	16.6	241.8	1.8
Political risks & contingency	45.4	34.5	8.5	3.5	91.9	1.5
Property	135.2	87.5	18.0	10.0	250.7	1.5
Reinsurance	102.7	75.1	16.8	9.4	204.0	1.6
Specialty lines	445.3	636.9	369.2	331.5	1,782.9	3.0
Net insurance liabilities	**886.3**	**942.1**	**442.7**	**371.0**	**2,642.1**	

* For a breakdown of net claims liabilities refer to note 24.

31 December 2012	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Life, accident & health	29.4	13.4	0.7	–	43.5	0.9
Marine	111.7	89.1	30.3	17.1	248.2	1.8
Political risks & contingency	52.6	41.0	10.1	4.1	107.8	1.5
Property	142.9	92.6	19.3	10.7	265.5	1.5
Reinsurance	135.4	91.9	20.3	11.1	258.7	1.5
Specialty lines	423.0	610.1	353.0	316.3	1,702.4	3.0
Net insurance liabilities	**895.0**	**938.1**	**433.7**	**359.3**	**2,626.1**	

The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December:

31 December 2013	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net insurance liabilities	886.3	942.1	442.7	371.0	2,642.1
Borrowings	–	132.1	–	141.0	273.1
Other payables	307.8	–	–	–	307.8

31 December 2012	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net insurance liabilities	895.0	938.1	433.7	359.3	2,626.1
Borrowings	–	–	176.5	138.5	315.0
Other payables	360.9	–	–	–	360.9

The group makes additional interest payments for borrowings. Further details are provided in notes 8 and 25.

2 Risk management *continued*

The next two tables summarise the carrying amount at reporting date of financial instruments analysed by maturity date.

Maturity 31 December 2013	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	925.6	649.9	722.9	536.9	324.3	361.9	1.4	3,522.9
Derivative financial instruments	2.6	–	–	–	–	–	–	2.6
Cash and cash equivalents	382.7	–	–	–	–	–	–	382.7
Other receivables	41.7	–	–	–	–	–	–	41.7
Other payables	(307.8)	–	–	–	–	–	–	(307.8)
Borrowings	–	–	(132.1)	–	–	(123.0)	(18.0)	(273.1)
Total	**1,044.8**	**649.9**	**590.8**	**536.9**	**324.3**	**238.9**	**(16.6)**	**3,369.0**

31 December 2012	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,064.4	606.3	636.1	490.0	456.9	332.1	–	3,585.8
Derivative financial instruments	1.9	–	–	–	–	–	–	1.9
Cash and cash equivalents	316.5	–	–	–	–	–	–	316.5
Other receivables	32.4	–	–	–	–	–	–	32.4
Other payables	(360.9)	–	–	–	–	–	–	(360.9)
Borrowings	–	–	–	(176.5)	–	(120.5)	(18.0)	(315.0)
Total	**1,054.3**	**606.3**	**636.1**	**313.5**	**456.9**	**211.6**	**(18.0)**	**3,260.7**

Borrowings include tier 2 subordinated debt that is due in October 2026 with a first call at the group's option on October 2016. If the debt is settled when due in October 2026 the maturity date of the debt falls within the >10 yrs category. If the debt is called in October 2016, the maturity date of the debt falls within the 2-3 yrs (2012: 3-4 yrs) category.

2.5 Operational risk ▪

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events.

There are a number of business activities for which the group uses the services of a third-party company, such as investment management, data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

The group also recognises that it is necessary for people, systems and infrastructure to be available to support our operations. Therefore we have taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. We operate a formal disaster recovery plan which, in the event of an incident, allows the group to move critical operations to an alternative location within 24 hours.

2 Risk management *continued*

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

Key components of the group's operational control environment include:
- ICA modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

Capital management

The group follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed and the results are documented and reconciled to the board's risk appetite where necessary.

The group has several requirements for capital, including:
- to support underwriting at Lloyd's through the syndicates in which it participates, being 2623, 3623 and 3622. This is based on the group's own individual capital assessment. This may be provided in the form of either the group's cash and investments or debt facilities;
- to support underwriting in Beazley Insurance Company, Inc. in the US; and
- to make acquisitions of insurance companies or MGAs whose strategic goals are aligned with our own.

The capital structure section of the financial review on pages 42 to 43 provides further background to the group's management of capital.

2.6 Group risk

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

a) Contagion

Contagion risk is the risk arising from actions of one part of the group which adversely affect any other part of the group. As the two largest components of the group, this is of particular relevance for actions in any of the US operations adversely affecting the UK operations and vice versa. The group has limited appetite for contagion risk and minimises the impact of this occurring by operating with clear lines of communication across the group to ensure all group entities are well informed and working to common goals.

b) Reputation

Reputation risk is the risk of negative publicity as a result of the group's contractual arrangements, customers, products, services and other activities. Key sources of reputation risk include operation of a Lloyd's franchise, interaction with capital markets since the group's IPO during 2002, and reliance upon the Beazley brand in the US, Europe, Asia, South America and Australasia. The group's preference is to minimise reputation risks but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

2.7 Regulatory and legal risk

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of the group are subject to legal and regulatory requirements within the jurisdictions in which it operates and the group's compliance function is responsible for ensuring that these requirements are adhered to.

2 Risk management *continued*

2.8 Strategic risk ▪

This is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy. Where events supersede the group's strategic plan this is escalated at the earliest opportunity through the group's monitoring tools and governance structure.

Senior management performance

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the group. As the group expands its worldwide business in the UK, US, Europe, South America and Asia, management stretch may make the identification, analysis and control of group risks more complex.

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

3 Segmental analysis

a) Reporting segments

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

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

Life, accident & health

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

Marine

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

Political risks & contingency

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

Property

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

Reinsurance

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

Specialty lines

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

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

3 Segmental analysis *continued*

b) Segment information

2013	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	100.3	315.9	131.2	371.4	221.6	829.8	1,970.2
Net premiums written	96.1	282.1	110.1	308.7	171.5	708.0	1,676.5
Net earned premiums	95.4	264.4	98.6	302.6	165.3	664.2	1,590.5
Net investment income	0.5	4.6	2.2	5.9	4.7	25.4	43.3
Other income	5.8	4.1	2.6	10.5	2.2	11.2	36.4
Revenue	**101.7**	**273.1**	**103.4**	**319.0**	**172.2**	**700.8**	**1,670.2**
Net insurance claims	70.8	88.7	4.7	122.2	29.5	403.2	719.1
Expenses for the acquisition of insurance contracts	27.7	71.3	26.8	99.5	34.1	172.1	431.5
Administrative expenses	21.0	29.6	17.4	31.5	17.5	70.8	187.8
Foreign exchange gain	0.1	0.5	0.2	0.6	0.4	1.2	3.0
Expenses	**119.6**	**190.1**	**49.1**	**253.8**	**81.5**	**647.3**	**1,341.4**
Share of profit/(loss) of associate	–	–	0.1	–	–	(0.4)	(0.3)
Segment result	**(17.9)**	**83.0**	**54.4**	**65.2**	**90.7**	**53.1**	**328.5**
Finance costs							(15.2)
Profit before income tax							**313.3**
Income tax expense							(49.3)
Profit for the year attributable to equity shareholders							**264.0**
Claims ratio	74%	34%	5%	40%	18%	61%	45%
Expense ratio	51%	38%	45%	44%	31%	36%	39%
Combined ratio	125%	72%	50%	84%	49%	97%	84%
Segment assets and liabilities							
Segment assets	221.4	1,089.8	785.7	1,016.9	384.2	3,086.6	6,584.6
Segment liabilities	(187.1)	(701.2)	(614.9)	(852.6)	(269.8)	(2,620.3)	(5,245.9)
Net assets	**34.3**	**388.6**	**170.8**	**164.3**	**114.4**	**466.3**	**1,338.7**
Additional information							
Investment in associates	–	–	1.5	–	–	6.9	8.4
Impairment of non-financial assets	7.5	0.1	0.1	0.2	0.2	4.8	12.9
Capital expenditure	0.3	1.0	0.5	2.1	0.8	1.9	6.6
Amortisation and depreciation	0.6	1.3	0.6	1.6	1.1	11.4	16.6
Net cash flow	2.7	19.9	8.7	6.5	3.0	25.4	66.2

3 Segmental analysis *continued*

2012	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	94.4	311.2	116.6	376.7	188.6	808.4	1,895.9
Net premiums written	75.3	283.1	102.3	275.7	146.7	659.6	1,542.7
Net earned premiums	80.3	279.6	98.1	266.4	139.0	615.1	1,478.5
Net investment income	1.1	8.0	4.4	11.1	8.9	49.1	82.6
Other income	1.1	3.1	1.9	10.2	0.4	8.0	24.7
Revenue	**82.5**	**290.7**	**104.4**	**287.7**	**148.3**	**672.2**	**1,585.8**
Net insurance claims	46.4	116.9	11.7	140.4	87.3	375.7	778.4
Expenses for the acquisition of insurance contracts	20.8	71.6	25.6	103.0	27.5	160.0	408.5
Administrative expenses	18.6	20.7	14.1	24.4	12.7	64.5	155.0
Foreign exchange loss	(0.6)	(1.9)	(0.7)	(2.1)	(1.1)	(4.6)	(11.0)
Expenses	**85.2**	**207.3**	**50.7**	**265.7**	**126.4**	**595.6**	**1,330.9**
Share of loss of associate	–	–	(0.2)	–	–	(0.3)	(0.5)
Segment result	**(2.7)**	**83.4**	**53.5**	**22.0**	**21.9**	**76.3**	**254.4**
Finance costs							(3.2)
Profit before income tax							**251.2**
Income tax credit							(36.6)
Profit for the year attributable to equity shareholders							**214.6**
Claims ratio	58%	42%	12%	53%	63%	61%	53%
Expense ratio	49%	33%	40%	48%	29%	37%	38%
Combined ratio	107%	75%	52%	101%	92%	98%	91%
Segment assets and liabilities							
Segment assets	214.7	1,047.5	767.3	1,002.0	377.8	3,039.6	6,448.9
Segment liabilities	(166.0)	(685.9)	(609.7)	(882.3)	(323.8)	(2,576.7)	(5,244.4)
Net assets	**48.7**	**361.6**	**157.6**	**119.7**	**54.0**	**462.9**	**1,204.5**
Additional information							
Investment in associates	–	0.1	1.5	0.2	0.2	8.0	10.0
Capital expenditure	0.4	0.9	0.5	1.3	0.5	4.8	8.4
Amortisation and depreciation	1.5	1.2	0.5	2.3	0.7	11.7	17.9
Net cash flow	(5.7)	(30.0)	(11.6)	(10.2)	(3.7)	(41.5)	(102.7)

3 Segmental analysis *continued*

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc. An analysis of earned premium split geographically by placement of risk and by reportable segment is provided in note 2 on page 122.

	2013 $m	2012 $m
Net earned premiums		
UK (Lloyd's)	1,556.2	1,451.1
US (Non-Lloyd's)	34.3	27.4
	1,590.5	**1,478.5**

	2013 $m	2012 $m
Segment assets		
UK (Lloyd's)	6,263.5	6,123.9
US (Non-Lloyd's)	321.1	325.0
	6,584.6	**6,448.9**

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

	2013 $m	2012 $m
Capital expenditure		
UK (Lloyd's)	5.4	8.0
US (Non-Lloyd's)	1.2	0.4
	6.6	**8.4**

4 Net investment income

	2013 $m	2012 $m
Interest and dividends on financial investments at fair value through profit or loss	68.0	72.9
Interest on cash and cash equivalents	0.7	0.6
Realised losses on financial investments at fair value through profit or loss	(7.1)	(10.8)
Net unrealised fair value (losses)/gains on financial investments at fair value through profit or loss	(7.9)	31.6
Investment income from financial investments	**53.7**	**94.3**
Fair value gain on derivative financial instruments	–	0.1
Investment income	**53.7**	**94.4**
Investment management expenses	(10.4)	(11.8)
	43.3	**82.6**

Deposits managed centrally by Lloyd's are now included in financial assets and no longer classified as cash and cash equivalents. In accordance with this reclassification, we have reclassified investment income from interest to realised and unrealised fair value gains/(losses).

5 Other income

	2013 $m	2012 $m
Commissions received	23.2	17.0
Profit commissions	11.0	5.8
Agency fees	2.0	1.9
Other income	0.2	–
	36.4	**24.7**

6 Operating expenses

	2013 $m	2012 $m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
– the auditing of accounts of the company's subsidiaries	1.2	1.1
– taxation compliance services	0.2	0.2
– all other assurance services not included above	0.3	0.4
– all other non-audit services not included above	–	0.1
	1.7	1.8
Impairment loss (written back)/recognised on reinsurance assets	(3.5)	2.3
Impairment loss recognised on intangible assets (refer to note 12)	11.5	–
Impairment loss recognised on investment in associates (refer to note 14)	1.4	–
Operating leases	8.8	8.5

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

7 Employee benefit expenses

	2013 $m	2012 $m
Wages and salaries	111.7	101.8
Short-term incentive payments	57.0	45.2
Social security	11.8	10.5
Share-based remuneration	16.3	12.1
Pension costs*	8.7	8.4
	205.5	178.0
Recharged to syndicate 623	(20.7)	(16.9)
	184.8	**161.1**

* Pension costs refer to the contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 27.

8 Finance costs

	2013 $m	2012 $m
Interest expense	16.2	16.1
Profit on debt buyback	(2.1)	(12.9)
Other finance costs	1.1	–
	15.2	**3.2**

During the period, Beazley bought back a total nominal amount of $39.5m (2012: $77.1m) of debt at market value of $37.4m (2012: $64.2m) in the form of fixed/floating rate subordinated notes falling due in 2026. A profit of $2.1m (2012: $12.9m) was realised in the difference between the carrying value and the nominal amount of the debt bought back. Refer to note 25 for further detail on the subordinated debt.

9 Income tax expense

	2013 $m	2012 $m
Current tax expense		
Current year	60.6	30.7
Prior year adjustments	4.3	0.5
	64.9	31.2
Deferred tax expense		
Origination and reversal of temporary differences	(12.1)	7.2
Prior year adjustments	(3.5)	(1.8)
	(15.6)	5.4
Income tax expense	**49.3**	**36.6**
Profit before tax	**313.3**	**251.2**
Tax calculated at Irish rate	39.2	31.4
Rates applied	12.5%	12.5%
Effects of:		
– Tax rates in foreign jurisdictions	10.5	10.2
– Non-deductible expenses	1.7	0.9
– Tax relief on share based payments – current and future years	(0.3)	0.6
– Under/(over)provided in prior years	0.8	(1.3)
– Change in UK tax rates*	(3.8)	(6.1)
– Foreign exchange on tax	2.9	0.7
– Foreign tax recoverable	(1.7)	1.7
– Utilisation of tax losses brought forward	–	(1.5)
Tax charge for the period	**49.3**	**36.6**

The weighted average applicable tax rate was 15.9% (2012: 16.5%).

* The Budget 2013 announced that the UK corporation rate will reduce to 21% at 1 April 2014, with a further reduction to 20% in 2015. The reductions in the UK tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. These reductions will reduce the company's future current tax charge and the deferred tax liability at 31 December 2013 has thus been calculated based on the tax rates substantively enacted at the statement of financial position.

10 Earnings per share

	2013	2012
Basic (cents)	52.4c	42.4c
Diluted (cents)	51.2c	41.3c
Basic (pence)	33.6p	26.7p
Diluted (pence)	32.8p	26.0p

Basic

Basic earnings per share are calculated by dividing profit after tax of $264.0m (2012: $214.6m) by the weighted average number of shares in issue during the year of 503.7m (2012: 506.4m). The shares held in the Employee Share Options Plan (ESOP) of 17.3m (2012: 13.3m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of $264.0m (2012: $214.6m) by the adjusted weighted average number of shares of 515.4m (2012: 519.5m). 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 17.3m (2012: 13.3m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

11 Dividends per share

A second interim dividend of 5.9p per ordinary share (2012: 5.6p) and a special dividend of 16.1p (2012: 8.4p) will be payable on 28 March 2014 to shareholders registered at 5.00pm on 28 February 2014 in respect of the six months ended 31 December 2013. These financial statements do not provide for the second interim dividend and the special dividend as a liability.

Together with the interim dividend of 2.9p (2012: 2.7p) this gives a total dividend for the year of 24.9p (2012: 16.7p).

The aforementioned interim and special dividends will be payable on 28 March 2014 to shareholders registered at 5.00pm on 28 February 2014 (save to the extent that shareholders on the register of members on 28 February 2014 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).

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2012	72.3	10.8	9.3	46.9	17.0	156.3
Other additions	–	–	–	5.8	–	5.8
Foreign exchange gain	1.7	0.7	–	2.8	–	5.2
Balance at 31 December 2012	**74.0**	**11.5**	**9.3**	**55.5**	**17.0**	**167.3**
Balance at 1 January 2013	74.0	11.5	9.3	55.5	17.0	167.3
Other additions	–	–	–	5.1	–	5.1
Foreign exchange (loss)/gain	(2.0)	(0.8)	–	1.6	–	(1.2)
Balance at 31 December 2013	**72.0**	**10.7**	**9.3**	**62.2**	**17.0**	**171.2**
Amortisation and impairment						
Balance at 1 January 2012	–	–	–	(24.9)	(0.7)	(25.6)
Amortisation for the year	–	–	–	(12.6)	(2.4)	(15.0)
Writedown of goodwill	(10.0)	–	–	–	–	(10.0)
Foreign exchange loss	–	–	–	(1.6)	–	(1.6)
Balance at 31 December 2012	**(10.0)**	**–**	**–**	**(39.1)**	**(3.1)**	**(52.2)**
Balance at 1 January 2013	(10.0)	–	–	(39.1)	(3.1)	(52.2)
Amortisation for the year	–	–	–	(11.8)	(2.4)	(14.2)
Impairment	–	–	–	–	(11.5)	(11.5)
Foreign exchange loss	–	–	–	(1.7)	–	(1.7)
Balance at 31 December 2013	**(10.0)**	**–**	**–**	**(52.6)**	**(17.0)**	**(79.6)**
Carrying amount						
31 December 2013	**62.0**	**10.7**	**9.3**	**9.6**	**–**	**91.6**
31 December 2012	64.0	11.5	9.3	16.4	13.9	115.1

Notes to the financial statements *continued*

12 Intangible assets *continued*

Impairment tests

Goodwill, syndicate capacity and US insurance authorisation licences are deemed to have indefinite life as they are expected to have value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but annually tested for impairment. They are allocated to the group's cash-generating units (CGUs) as follows:

2013	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	28.6	2.3	1.0	24.9	0.8	4.4	62.0
Capacity	0.3	1.6	0.7	2.5	0.8	4.8	10.7
Licences	–	–	–	1.9	–	7.4	9.3
Total	**28.9**	**3.9**	**1.7**	**29.3**	**1.6**	**16.6**	**82.0**

2012	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	30.6	2.3	1.0	24.9	0.8	4.4	64.0
Capacity	0.3	1.7	0.7	2.7	0.8	5.3	11.5
Licences	–	–	–	1.9	–	7.4	9.3
Total	**30.9**	**4.0**	**1.7**	**29.5**	**1.6**	**17.1**	**84.8**

When testing for impairment, the recoverable amount of a CGU is determined based on value in use. Value in use is calculated using projected cash flows based on financial budgets approved by management covering a five-year period taking into account historic growth rates and expected future market conditions. A pre tax discount rate of 9% (2012: 9%) has been used to discount the projected cash flows of each CGU. The same discount rate has been applied to all operating segments as these segments all undertake underwriting activities supported by the same capital base. The discount rate of 9% (2012: 9%) reflects the group's expected return on equity and cost of borrowing and has been calculated using independent measures of the risk-free rate of return and the group's risk profile relative to the risk-free and market rates of return and, as such, is considered representative of the rate appropriate to the risk specific to the CGU.

The impairment tests have been performed assuming the group's operating segments are the CGUs to which the intangible assets have been allocated. The tests indicate that there is significant headroom in respect of the value in use of all the group's intangible assets and it is not expected that any realistic change in market conditions would give rise to any further impairment.

Impairment losses

During the year under review, there have been indicators that the performance of certain insurance contracts relating to specific renewal rights within our life, accident & health and specialty lines divisions is not in line with expectation. As a result, the value in use of these renewal rights is estimated to be less than the carrying value and an impairment loss, of $7.5m and $4.0m respectively, was recognised in the statement of profit or loss.

13 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2012	2.1	19.5	7.9	27.4
Additions	0.3	2.5	0.1	2.6
Disposals	–	(0.5)	(0.2)	(0.7)
Foreign exchange gain	0.1	0.7	0.2	0.9
Balance at 31 December 2012	**2.5**	**22.2**	**8.0**	**30.2**
Balance at 1 January 2013	**2.5**	**22.2**	**8.0**	**30.2**
Additions	–	–	1.5	1.5
Foreign exchange (loss)/gain	(0.2)	–	0.1	0.1
Balance at 31 December 2013	**2.3**	**22.2**	**9.6**	**31.8**
Accumulated depreciation				
Balance at 1 January 2012	**(0.7)**	**(13.0)**	**(7.3)**	**(20.3)**
Depreciation charge for the year	(0.4)	(2.5)	(0.4)	(2.9)
Disposals	–	0.5	0.2	0.7
Foreign exchange loss	–	(0.5)	(0.2)	(0.7)
Balance at 31 December 2012	(1.1)	(15.5)	(7.7)	(23.2)
Balance at 1 January 2013	**(1.1)**	**(15.5)**	**(7.7)**	**(23.2)**
Depreciation charge for the year	(0.2)	(2.0)	(0.4)	(2.4)
Foreign exchange gain/(loss)	0.1	(0.1)	(0.1)	(0.2)
Balance at 31 December 2013	**(1.2)**	**(17.6)**	**(8.2)**	**(25.8)**
Carrying amounts				
31 December 2013	**1.1**	**4.6**	**1.4**	**6.0**
31 December 2012	1.4	6.7	0.3	7.0

14 Investment in associates

Group	2013 $m	2012 $m
As at 1 January	**10.0**	**8.9**
Investment in Equinox Global Limited	0.1	1.6
Impairment of Falcon Management Holdings Limited	(1.4)	–
Share of loss after tax	(0.3)	(0.5)
As at 31 December	**8.4**	**10.0**

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value $m
2013			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25%	–
Capson Corp., Inc. (and subsidiary)	USA	32%	6.9
Equinox Global Limited (and subsidiary)	UK	27%	1.5
			8.4

The aggregate financial information for all associates (100%) is as follows:

	2013 $m	2012 $m
Assets	38.0	31.6
Liabilities	24.7	17.2
Equity	13.3	14.4
Revenue	21.7	14.9
Loss after tax	(0.9)	(2.5)

All of the investments in associates are unlisted and are equity accounted using financial information as at 31 December 2013.

During the year under review, Falcon Money Management Holdings Limited (and subsidiaries) has indicated that due to a loss in future revenue, a restructuring of its operations is highly likely. As a result, the fair value of this investment is less than the carrying value and an impairment loss of $1.4m was recognised in the statement of profit or loss. The investment does not relate to a specific reportable segment and the impairment loss has been allocated to all reportable segments (refer to note 3).

Company	2013 $m	2012 $m
As at 1 January	**1.4**	**1.4**
Impairment of Falcon Management Holdings Limited	(1.4)	
Share of loss after tax	–	–
As at 31 December	**–**	**1.4**

The company's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value $m
2013			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25%	–

The aggregate financial information for the associate (100%) is as follows:

	2013 $m	2012 $m
Assets	11.8	8.8
Liabilities	9.3	6.9
Equity	2.5	1.9
Revenue	8.8	8.3
Profit after tax	–	–

The investment in the associate is unlisted and is equity accounted using financial information as at 31 December 2013.

15 Deferred acquisition costs

	2013 $m	2012 $m
Balance at 1 January	185.0	159.7
Additions	452.5	433.8
Amortisation charge	(431.5)	(408.5)
Balance at 31 December	**206.0**	**185.0**

16 Financial assets and liabilities

	2013 $m	2012 $m
Financial assets at fair value		
Hedge funds	435.8	417.7
Regulated equity linked funds	80.5	–
Fixed rate debt securities	2,629.9	3,077.8
Floating rate debt securities	893.0	508.0
Total financial investments at fair value through statement of profit or loss	**4,039.2**	**4,003.5**
Derivative financial instruments	4.4	1.9
Total financial assets at fair value	**4,043.6**	**4,005.4**
The amount expected to mature before and after one year are:		
Within one year	1,446.3	1,484.0
After one year	2,597.3	2,521.4
	4,043.6	**4,005.4**
Financial liabilities		
Retail bond	123.0	120.5
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	132.1	176.5
Derivative financial instruments	1.8	–
Total financial liabilities	**274.9**	**315.0**
The amount expected to mature before and after one year are:		
Within one year	1.8	–
After one year	273.1	315.0
	274.9	**315.0**

A breakdown of the group's investment portfolio is provided on page 38.
A breakdown of derivative financial instruments is disclosed in note 17.

As noted on page 126 consideration is also given when valuing the hedge funds to any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest valuations. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2013 (2012: $nil).

The retail bond was issued by the company. Refer to note 25 for further details.

The group has given a fixed and floating charge over certain of its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary. Further details are provided in note 32.

Financial assets now include deposits managed centrally by Lloyd's, which were previously classified as cash and cash equivalents. This classification also applies to comparative information provided.

16 Financial assets and liabilities *continued*

Fair value measurement

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of government and government agencies which are measured based on quoted prices.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (eg. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills which are not actively traded, corporate bonds, asset backed securities and mortgage-backed securities.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. The group uses prices and inputs that are current as of the measurement date for valuation of these instruments.

If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group has an established control framework and valuation policy with respect to the measurement of fair values.

For the Group's Level 2 debt securities our fund administrator obtains the prices used in the valuation from independent pricing vendors such as Bloomberg, S&P, Reuters, Markit and IDC. The independent pricing vendors derive an evaluated price from observable market inputs. The market inputs include trade data, two-sided markets, institutional bids, comparable trades, dealer quotes news media, and other relevant market data. These inputs are verified in their pricing engines and calibrated with the pricing models to calculate spread to benchmarks, as well as other pricing assumptions such as Weighted Average life (WM), Discount Margins (DM), Default rates, and recovery and prepayments assumptions for mortgage securities. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The group records the unadjusted price provided and validates the price through various tolerance checks such as comparison with the investment custodians and the investment managers to assess the reasonableness and accuracy of the price to be used to value the security. In the rare case that the price fails the tolerance test, it is escalated and discussed internally. We would not override the price on a retrospective basis, but we would work with the administrator and pricing vendor to investigate the difference. This generally results in the vendor updating their inputs. We also review the valuation policy on a regular basis to ensure it is fit for purpose. No adjustments have been made to the prices obtained from the independent administrator.

For our hedge funds and regulated equity linked funds, the pricing and valuation of each fund is undertaken by independent administrators in accordance with each underlying funds valuation policy. For the regulated equity linked funds, the individual fund prices are published on a daily or weekly basis via Bloomberg and other market data providers such as Reuters. For the hedge funds, the individual fund prices are communicated by the independent administrators to all investors via the monthly investor statements. The fair value of the hedge fund and regulated equity linked fund portfolios are calculated by reference to the underlying net asset values of each of the individual funds.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds and regulated equity linked funds. We identified that 70% (2012: 64%) of these underlying assets were level 1 and the remainder level 2. This enables us to categorise hedge funds as level 2.

16 Financial assets and liabilities *continued*

Fair value measurement continued

Prior to any new hedge fund investment, extensive due diligence is undertaken on each fund to ensure that pricing and valuation is undertaken by the independent administrators and that each fund's valuation policy is appropriate for the financial instruments the manager will be employing to execute the investment strategy.

The following table shows the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed rate debt securities	1,435.0	1,194.9	–	2,629.9
Floating rate debt securities	250.6	642.4	–	893.0
Hedge funds	–	435.8	–	435.8
Regulated equity linked funds	–	80.5	–	80.5
Derivative financial instruments	4.4	–	–	4.4
Total financial assets measured at fair value	**1,690.0**	**2,353.6**	**–**	**4,043.6**
Financial liabilities measured at fair value				
Derivative financial instruments	1.8	–	–	1.8
Financial liabilities not measured at fair value				
Retail bond	–	128.9	–	128.9
Tier 2 subordinated debt	–	135.9	–	135.9
Total financial liabilities not measured at fair value	**–**	**264.8**	**–**	**264.8**

2012	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed rate debt securities	1,720.7	1,357.1	–	3,077.8
Floating rate debt securities	324.6	183.4	–	508.0
Hedge funds	–	417.7	–	417.7
Regulated equity linked funds	–	–	–	–
Derivative financial instruments	1.9	–	–	1.9
Total financial assets measured at fair value	**2,047.2**	**1,958.2**	**–**	**4,005.4**
Financial liabilities measured at fair value				
Derivative financial instruments	–	–	–	–
Financial liabilities not measured at fair value				
Retail bond	–	127.7	–	127.7
Tier 2 subordinated debt	–	178.7	–	178.7
Total financial liabilities not measured at fair value	**–**	**306.4**	**–**	**306.4**

The table above does not include financial assets and financial liabilities if the carrying amount of these financial assets and liabilities approximates fair value at the reporting date.

There were no transfers in either direction between level 1 and level 2 in 2013 and 2012.

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enables more accurate evaluation of Beazley's exposure to risks arising from financial instruments.

17 Derivative financial instruments

In 2013 and 2012 the group entered into over-the-counter and exchange traded derivative contracts. The group had the right and the intention to settle each contract on a net basis.

The assets and liabilities of these contracts at 31 December are detailed below:

	2013		2012	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Foreign exchange forward contracts	6.5	–	278.6	1.9
Bond future contract	64.1	4.4	–	–
	70.6	4.4	**278.6**	**1.9**

	2013		2012	
Derivative financial instrument liabilities	Gross contract amount $m	Fair value of liabilities $m	Gross contract amount $m	Fair value of liabilities $m
Foreign exchange forward contracts	170.0	1.8	8.6	–
	170.0	**1.8**	**8.6**	**–**

Foreign exchange forward contracts

The group entered into over-the-counter foreign exchange forward agreements in order to hedge the foreign currency exposure resulting from transactions and balances held in currencies that are different to the functional currency of the group.

Bond future contract

The group entered in bond futures trades to manage the investment portfolio duration. The vast majority of the trades were executed in order to partially hedge the duration of fixed income securities held at the same time. Occasionally, bond future contracts were traded in order to gain interest rate duration exposure to certain areas of the yield curve.

18 Insurance receivables

	2013 $m	2012 $m
Insurance receivables	617.7	578.0
	617.7	**578.0**

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are classified as loans and receivables and their carrying values approximate fair value at the reporting date.

19 Reinsurance assets

	2013 $m	2012 $m
Reinsurers' share of claims	992.9	984.1
Impairment provision	(14.5)	(18.0)
	978.4	966.1
Reinsurers' share of unearned premium reserve	199.8	221.2
	1,178.2	**1,187.3**

Further analysis of the reinsurance assets is provided in note 24.

20 Cash and cash equivalents

Group	2013 $m	2012 $m
Cash at bank and in hand	266.6	247.7
Short-term deposits and highly liquid investments	116.1	68.8
	382.7	**316.5**

Company	2013 $m	2012 $m
Cash at bank and in hand	1.2	1.3
	1.2	**1.3**

Deposits to the value of $307.3m (2012: $320.0m) managed centrally by Lloyd's are now included in financial assets and no longer classified as cash and cash equivalents.

21 Share capital

	2013		2012	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Authorised	700.0	55.8	700.0	55.8
Issued and fully paid	521.0	41.6	521.0	41.6
Balance at 1 January	**521.0**	**41.6**	**535.9**	**42.8**
Issue of shares	–	–	2.5	0.2
Cancellation of treasury shares	–	–	(17.4)	(1.4)
Balance at 31 December	**521.0**	**41.6**	**521.0**	**41.6**

22 Other reserves

	Merger reserve $m	Treasury shares $m	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Group					
Balance at 1 January 2012	**1.7**	**(30.1)**	**7.2**	**(28.9)**	**(50.1)**
Issue of shares	–	–	(0.2)	–	(0.2)
Share based payments	–	–	12.4	–	12.4
Acquisition of own shares held in trust	–	–	–	(25.1)	(25.1)
Reclassification of reserves*	(17.1)	–	7.4	–	(9.7)
Cancellation of treasury shares	–	30.1	–	–	30.1
Transfer of shares to employees	–	–	(3.8)	3.8	–
Balance at 31 December 2012	**(15.4)**	**–**	**23.0**	**(50.2)**	**(42.6)**
Share based payments	–	–	19.1	–	19.1
Acquisition of own shares held in trust	–	–	–	(17.7)	(17.7)
Reclassification of reserves*	–	–	(4.3)	4.3	–
Transfer of shares to employees	–	–	(11.3)	14.7	3.4
Balance at 31 December 2013	**(15.4)**	**–**	**26.5**	**(48.9)**	**(37.8)**

	Merger reserve $m	Treasury shares reserve $m	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Company					
Balance at 1 January 2012	(35.4)	(30.1)	0.5	5.7	(59.3)
Issue of shares	–	–	(0.2)	–	(0.2)
Share based payments	–	–	12.4	–	12.4
Acquisition of own shares held in trust	–	–	–	(25.1)	(25.1)
Reclassification of reserves*	–	–	(9.7)	–	(9.7)
Cancellation of treasury shares	–	30.1	–	–	30.1
Transfer of shares to employees	–	–	(3.8)	3.8	–
Balance at 31 December 2012	**(35.4)**	**–**	**(0.8)**	**(15.6)**	**(51.8)**
Share based payments	–	–	19.1	–	19.1
Acquisition of own shares held in trust	–	–	–	(17.7)	(17.7)
Transfer of shares to employees	–	–	(11.3)	14.7	3.4
Balance at 31 December 2013	**(35.4)**	**–**	**7.0**	**(18.6)**	**(47.0)**

* Reclassification of reserves relates to the balance in employee share options reserve previously included in the merger reserve caption with effect from 9 June 2009, being the date of the reverse acquisition of Beazley plc. The employee share options reserve also included the IFRS 2 provision for plans that have vested subsequent to 9 June 2009 but were not cleared down upon vesting. This adjustment and foreign exchange differences on transfers have also been reflected.

23 Equity compensation plans

23.1 Employee share trust

	2013		2012	
	Number (m)	$m	Number (m)	$m
Costs debited to employee share trust reserve				
Balance at 1 January	**20.0**	**50.2**	**12.5**	**28.9**
Additions	5.0	17.7	9.5	25.1
Transfer of shares to employees	(6.3)	(14.7)	(2.0)	(3.8)
Reclassification of reserves	–	(4.3)	–	–
Balance at 31 December	**18.7**	**48.9**	**20.0**	**50.2**

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

On the third anniversary of an award the shares under the deferred share plan are transferred from the trust to the employees. Under the retention plan, on the third anniversary, and each year after that, 25.0% of the shares awarded are transferred to the employees.

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

23.2 Employee share option plans

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

The terms and conditions of the grants are as follows:

Share option plan	Grant date	No. of options (m)	Vesting conditions	Contractual life of options
MSIP	04/04/2013	0.5	Three years' service + ROE	10 years
MSIP	04/04/2013	0.5	Five years' service + ROE	10 years
LTIP	13/02/2013 30/03/2012 14/02/2011 18/02/2010	2.1 2.6 2.4 2.6	Five years' service + NAV + minimum shareholding requirement	10 years
LTIP	13/02/2013 30/03/2012 14/02/2011	2.1 2.6 2.4	Three years' service + NAV + minimum shareholding requirement	10 years
LTIP	21/03/2005 21/03/2006	0.1 0.1	Three years' service + NAV + TSR comparator	10 years
SAYE (UK)	10/04/2013 11/04/2012 11/04/2011	0.4 0.7 0.3	Three years' service	N/A
SAYE (US)	03/06/2013 15/05/2012	0.1 0.1	Two years' service	N/A
Total share options outstanding		**19.6**		

Vesting conditions

In summary the vesting conditions are defined as:

- Two years' service – An employee has to remain in employment until the second anniversary from the grant date.
- Three years' service – An employee has to remain in employment until the third anniversary from the grant date.
- ROE - Return on exchange, based the average marine divisional pre-tax return on equity (ROE) over the performance period.
- NAV – The NAV growth, after adjusting for the effect of dividends, is greater than the risk-free rate of return plus a premium per year.
- TSR comparator – The group's TSR growth is compared with that of members of the comparator group over a three-year period starting with the year in which the award is made.

23 Equity compensation plans *continued*

Further details of equity compensation plans can be found in the directors' remuneration report on pages 74 to 98. The number and weighted average exercise prices of share options are as follows:

	2013		2012	
	Weighted average exercise price (pence per share)	No. of options (m)	Weighted average exercise price (pence per share)	No. of options (m)
Outstanding at 1 January	**10.3**	**17.3**	**14.0**	**14.8**
Forfeited during the year	27.3	(0.7)	16.1	(1.3)
Exercised during the year	16.6	(2.8)	42.1	(2.5)
Granted during the year	21.3	5.8	15.8	6.3
Outstanding at 31 December	**9.4**	**19.6**	**10.3**	**17.3**
Exercisable at 31 December	–	0.1	–	0.3

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

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

	2013 $m	2012 $m
Share options charge to statement of profit or loss	**19.1**	**12.4**
Weighted average share price (pence per option)	155.3	127.7
Weighted average exercise price (pence per option)	9.4	10.3
Average expected life of options	4.8yrs	4.9yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	4.0%	4.0%
Average risk-free interest rate	3.4%	3.6%

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

24 Insurance liabilities and reinsurance assets

	2013 $m	2012 $m
Gross		
Claims reported and loss adjustment expenses	1,023.0	1,058.9
Claims incurred but not reported	2,597.5	2,533.3
Gross claims liabilities	3,620.5	3,592.2
Unearned premiums	956.8	891.6
Total insurance liabilities, gross	**4,577.3**	**4,483.8**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	253.7	266.7
Claims incurred but not reported	724.7	699.4
Reinsurers' share of claims liabilities	978.4	966.1
Unearned premiums	199.8	221.2
Total reinsurers' share of insurance liabilities	**1,178.2**	**1,187.3**

24 Insurance liabilities and reinsurance assets *continued*

	2013 $m	2012 $m
Net		
Claims reported and loss adjustment expenses	769.3	792.2
Claims incurred but not reported	1,872.8	1,833.9
Net claims liabilities	2,642.1	2,626.1
Unearned premiums	757.0	670.4
Total insurance liabilities, net	**3,399.1**	**3,296.5**

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

24.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2013			2012		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	1,058.9	(266.7)	792.2	1,085.6	(252.4)	833.2
Claims incurred but not reported	2,533.3	(699.4)	1,833.9	2,440.6	(743.3)	1,697.3
Balance at 1 January	**3,592.2**	**(966.1)**	**2,626.1**	**3,526.2**	**(995.7)**	**2,530.5**
Claims paid	(860.3)	146.3	(714.0)	(852.0)	200.8	(651.2)
Increase in claims						
– Arising from current year claims	1,160.9	(223.8)	937.1	1,101.9	(197.4)	904.5
– Arising from prior year claims	(283.8)	65.8	(218.0)	(199.1)	73.1	(126.0)
Net exchange differences	11.5	(0.6)	10.9	15.2	(46.9)	(31.7)
Balance at 31 December	**3,620.5**	**(978.4)**	**2,642.1**	**3,592.2**	**(966.1)**	**2,626.1**
Claims reported and loss adjustment expenses	1,023.0	(253.7)	769.3	1,058.9	(266.7)	792.2
Claims incurred but not reported	2,597.5	(724.7)	1,872.8	2,533.3	(699.4)	1,833.9
Balance at 31 December	**3,620.5**	**(978.4)**	**2,642.1**	**3,592.2**	**(966.1)**	**2,626.1**

b) Unearned premiums reserve

	2013			2012		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	**891.6**	**(221.2)**	**670.4**	**808.4**	**(202.2)**	**606.2**
Increase in the year	1,970.2	(313.5)	1,656.7	1,895.9	(366.8)	1,529.1
Release in the year	(1,905.0)	334.9	(1,570.1)	(1,812.7)	347.8	(1,464.9)
Balance at 31 December	**956.8**	**(199.8)**	**757.0**	**891.6**	**(221.2)**	**670.4**

24 Insurance liabilities and reinsurance assets *continued*

24.2 Assumptions, changes in assumptions and sensitivity analysis

a) Process used to decide on assumptions

The peer review reserving process

Beazley uses a quarterly dual track process to set its reserves:

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

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

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

Actuarial assumptions

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

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

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

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

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

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

Where significant large losses impact an underwriting year (eg the events of 11 September 2001, the hurricanes in 2004, 2005, 2008 and 2012, or the earthquakes in 2010 and 2011), the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected.

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

24 Insurance liabilities and reinsurance assets *continued*

b) Major assumptions

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

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

c) Changes in assumptions

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

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

d) Sensitivity analysis

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

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

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

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

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2013 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2003 ae %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %
Life, accident & health											
12 months							53.1	52.9	56.0	56.6	63.3
24 months							52.2	52.5	52.1	68.0	
36 months							45.0	49.0	59.5		
48 months							43.2	48.1			
60 months							42.4				
72 months											
84 months											
96 months											
108 months											
120 months											
Marine											
12 months		62.3	82.5	57.1	57.8	69.0	55.8	50.6	55.1	55.9	57.1
24 months		65.2	80.1	42.9	60.1	65.1	52.0	49.6	47.9	46.0	
36 months		62.3	70.6	33.0	50.6	59.1	45.3	43.8	40.0		
48 months		61.8	68.6	29.2	48.1	62.7	41.7	42.3			
60 months		60.7	66.4	29.0	49.6	62.5	41.4				
72 months		56.2	64.5	26.6	50.3	58.9					
84 months		55.9	63.7	26.5	46.9						
96 months		55.7	63.3	25.9							
108 months		55.6	63.3								
120 months		54.8									
Political risks & contingency											
12 months		67.7	61.0	57.7	57.2	57.5	61.1	61.4	58.8	62.5	57.3
24 months		55.6	38.1	36.2	39.0	67.1	38.7	40.3	38.4	42.6	
36 months		52.3	28.6	33.0	56.4	72.6	35.8	32.9	33.7		
48 months		37.9	25.1	43.1	52.8	86.5	31.1	23.8			
60 months		37.0	18.2	39.1	53.7	71.6	25.2				
72 months		35.1	17.8	38.8	49.9	60.8					
84 months		26.5	17.7	36.0	47.4						
96 months		26.3	12.2	30.5							
108 months		26.1	12.2								
120 months		26.1									
Property											
12 months		65.4	87.0	58.7	58.5	71.2	54.1	58.9	59.6	55.9	55.4
24 months		65.2	83.9	44.8	56.7	66.2	43.0	62.3	51.9	48.3	
36 months		65.8	82.4	43.9	54.5	65.1	38.0	60.3	49.8		
48 months		63.9	87.4	51.4	55.3	63.1	36.9	57.5			
60 months		64.4	86.8	51.5	58.6	61.6	35.8				
72 months		63.1	85.1	51.2	66.9	60.5					
84 months		62.9	84.4	50.5	66.9						
96 months		63.5	83.6	48.3							
108 months		63.5	82.4								
120 months		63.3									

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2003 ae %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	
Reinsurance												
12 months		87.5	196.0	52.4	59.6	60.1	60.8	68.2	76.6	62.9	61.5	
24 months		81.6	187.5	25.1	26.5	51.1	48.7	152.6	77.5	36.0		
36 months		76.5	185.8	24.9	22.0	42.5	40.7	141.0	72.0			
48 months		74.0	179.0	23.3	20.0	39.3	40.2	135.3				
60 months		72.1	175.2	21.4	19.2	38.9	36.0					
72 months		71.1	172.7	21.1	19.0	39.0						
84 months		70.0	171.6	21.3	17.5							
96 months		69.0	171.2	20.8								
108 months		68.6	167.7									
120 months		68.1										
Specialty lines												
12 months		72.8	72.1	72.7	72.9	72.2	72.8	74.0	75.7	74.2	73.6	
24 months		71.4	72.1	72.8	72.5	72.2	72.8	74.0	75.8	74.2		
36 months		67.7	69.9	72.7	72.6	72.1	72.0	73.0	76.6			
48 months		64.6	66.5	72.7	72.4	72.1	71.4	73.1				
60 months		59.5	62.9	71.0	72.4	71.8	71.5					
72 months		58.4	56.2	66.0	72.4	71.9						
84 months		56.5	52.5	62.1	72.5							
96 months		54.6	49.3	58.6								
108 months		52.7	47.6									
120 months		49.7										
Total												
12 months		69.5	90.5	63.0	63.6	68.8	62.6	64.8	67.3	64.7	63.3	
24 months		69.1	87.7	53.3	59.3	67.6	57.5	73.3	63.0	58.1		
36 months		66.5	84.1	50.9	58.2	66.2	53.8	69.3	61.2			
48 months		63.5	82.5	52.6	58.5	67.4	52.2	67.3				
60 months		61.0	79.6	52.2	59.6	65.6	51.2					
72 months		59.3	75.9	49.5	61.4	64.0						
84 months		57.9	74.0	47.5	60.6							
96 months		57.0	72.0	44.9								
108 months		56.2	70.7									
120 months		54.6										
Total ultimate losses ($m)	2,250.8	742.2	1,081.9	751.3	1,099.9	1,212.8	1,079.1	1,369.1	1,199.7	1,228.5	1,418.5	13,433.8
Less paid claims ($m)	(2,162.7)	(673.2)	(999.0)	(593.9)	(859.2)	(870.1)	(623.1)	(845.0)	(522.3)	(220.6)	(46.2)	(8,415.3)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(21.2)	(635.3)	(656.5)
Gross claims liabilities (100% level) ($m)	88.1	69.0	82.9	157.4	240.7	342.7	456.0	524.1	677.4	986.7	737.0	4,362.0
Less unaligned share ($m)	(16.7)	(13.1)	(15.8)	(29.9)	(45.7)	(61.7)	(82.1)	(93.8)	(117.6)	(153.4)	(111.7)	(741.5)
Gross claims liabilities, group share ($m)	**71.4**	**55.9**	**67.1**	**127.5**	**195.0**	**281.0**	**373.9**	**430.3**	**559.8**	**833.3**	**625.3**	**3,620.5**

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2003 ae %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %
Life, accident & health											
12 months							51.8	51.6	55.1	57.9	65.4
24 months							50.3	52.0	54.0	64.7	
36 months							44.5	51.8	62.5		
48 months							44.8	50.8			
60 months							44.0				
72 months											
84 months											
96 months											
108 months											
120 months											
Marine											
12 months		58.0	55.5	54.1	55.0	61.3	54.5	52.3	56.1	55.4	56.8
24 months		53.0	49.0	42.3	56.5	57.1	48.5	49.3	48.1	45.9	
36 months		48.7	42.8	33.0	49.5	50.9	39.8	44.6	39.6		
48 months		47.9	39.6	31.6	46.7	47.8	36.1	42.8			
60 months		46.7	39.1	31.1	47.6	47.4	35.9				
72 months		44.3	38.0	29.3	47.8	46.9					
84 months		44.0	36.6	29.1	45.2						
96 months		43.3	36.2	28.6							
108 months		43.2	36.2								
120 months		43.0									
Political risks & contingency											
12 months		64.3	63.6	56.2	55.4	55.9	58.8	57.3	55.0	59.4	54.8
24 months		58.1	46.6	40.4	39.4	74.8	35.1	37.7	37.2	40.8	
36 months		54.1	36.0	37.4	55.1	74.8	33.0	30.4	31.9		
48 months		40.9	30.3	46.9	53.6	79.4	28.4	21.5			
60 months		40.6	24.2	41.2	52.0	68.2	22.8				
72 months		36.1	23.1	39.6	48.8	57.9					
84 months		26.1	23.1	39.7	46.7						
96 months		25.3	15.2	36.8							
108 months		24.3	15.2								
120 months		24.2									
Property											
12 months		59.7	65.0	61.5	61.2	67.4	53.8	59.1	60.6	58.8	56.9
24 months		61.0	62.2	49.6	59.8	67.4	48.8	66.4	58.1	53.4	
36 months		60.4	58.6	48.1	59.0	65.1	45.5	66.8	54.7		
48 months		58.7	61.3	52.0	59.5	64.1	43.2	60.9			
60 months		58.5	61.9	51.1	62.5	63.1	42.6				
72 months		57.7	60.2	51.1	62.6	61.7					
84 months		57.5	59.3	50.7	62.6						
96 months		57.5	59.2	49.1							
108 months		57.8	57.8								
120 months		57.3									

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2003 ae %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	
Reinsurance												
12 months		88.4	152.9	54.3	55.3	67.1	55.6	77.0	85.8	67.1	59.2	
24 months		85.5	131.6	36.6	30.5	56.6	52.6	137.9	87.7	43.0		
36 months		82.4	127.1	34.7	25.3	47.6	46.7	132.3	82.0			
48 months		76.3	117.5	32.5	22.9	45.6	46.2	127.4				
60 months		73.0	111.3	31.0	22.3	45.0	41.3					
72 months		71.5	110.1	31.0	22.1	45.1						
84 months		70.8	104.9	31.3	20.4							
96 months		69.5	104.4	30.7								
108 months		69.7	99.5									
120 months		68.2										
Specialty lines												
12 months		69.7	69.3	68.7	69.7	70.2	70.0	71.4	72.8	71.4	69.7	
24 months		68.6	69.3	68.6	68.7	70.2	69.9	71.4	72.8	71.0		
36 months		65.8	67.6	68.6	68.8	70.2	69.2	70.7	72.0			
48 months		62.3	64.0	68.7	67.5	68.8	66.2	69.7				
60 months		57.0	59.0	63.9	67.4	68.3	65.9					
72 months		53.7	53.9	57.8	67.4	68.2						
84 months		51.2	50.4	54.3	67.6							
96 months		48.9	48.0	51.1								
108 months		47.6	46.1									
120 months		45.3										
Total												
12 months		65.8	73.1	62.2	63.1	66.3	60.4	64.5	66.9	64.2	65.4	
24 months		65.3	68.8	54.5	59.3	66.8	57.0	70.3	63.7	58.0		
36 months		62.7	65.1	51.9	58.8	64.3	53.5	68.0	60.8			
48 months		59.4	62.3	52.6	57.6	63.3	50.9	65.0				
60 months		56.5	59.2	50.4	58.2	61.8	49.8					
72 months		54.0	56.4	47.3	58.0	60.5						
84 months		52.2	53.9	45.8	57.3							
96 months		50.9	52.2	43.7								
108 months		50.3	50.5									
120 months		49.0										
Total ultimate losses ($m)	1,348.8	557.1	602.5	595.5	897.9	949.0	819.2	1,127.7	971.2	997.0	1,140.0	10,005.9
Less paid claims ($m)	(1,287.4)	(496.4)	(542.7)	(485.0)	(728.5)	(732.0)	(538.1)	(737.2)	(448.9)	(207.6)	(42.6)	(6,246.4)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(20.0)	(553.0)	(573.0)
Net claims liabilities (100% level) ($m)	**61.4**	**60.7**	**59.8**	**110.5**	**169.4**	**217.0**	**281.1**	**390.5**	**522.3**	**769.4**	**544.4**	**3,186.5**
Less unaligned share ($m)	(11.7)	(11.5)	(11.4)	(21.0)	(32.2)	(39.1)	(50.6)	(70.1)	(89.9)	(121.4)	(85.5)	(544.4)
Net claims liabilities, group share ($m)	**49.7**	**49.2**	**48.4**	**89.5**	**137.2**	**177.9**	**230.5**	**320.4**	**432.4**	**648.0**	**458.9**	**2,642.1**

24 Insurance liabilities and reinsurance assets *continued*

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2013 for each underwriting year.

Generally, the claims experience has been in line with or better than expected. There was notably benign natural catastrophe experience on the 2012 underwriting year, which resulted in the release of unutilised catastrophe reserve margin. The initial reserves established in respect of the 2010 and 2011 natural catastrophe events have remained appropriate in light of development to date.

Life, accident & health

The 2011 and 2012 reserves were strengthened on the income protection segment of the portfolio, emerging claims experience exceeded expectation. The 2013 underwriting year opening loss ratio reflects this. The remainder of the portfolio developed as expected.

Marine

The sustained period of exceptional performance continued as all years exhibited stable to strongly favourable development.

Political risks & contingency

The financial crisis-exposed 2006, 2007 and 2008 underwriting years for our political risks business have continued to develop favourably in 2013. The subsequent underwriting years showed lower claim frequency, which is now being borne out in reserve releases.

Property

2013 saw stable to strongly positive development across all underwriting years. Reserve releases on the 2010 and 2011 natural catastrophes, generally favourable attrition and benign natural catastrophe experience on the 2012 underwriting year each played their part.

Reinsurance

The benign natural catastrophe experience in 2012 can readily be seen in the development of that underwriting year. In addition, there was improvement on the 2010 and 2011 underwriting years as the reserves initially established on the natural catastrophes have being proving more than sufficient.

Specialty lines

During 2013, the hard market 2003, 2004, 2005 and 2006 underwriting years continued their exceptional development. The team maintained its vigilance on the 2007 and post underwriting years. The nature of claims development and the residual uncertainty in these years coupled with our consistent reserving philosophy has resulted in stable to marginally decreasing loss ratios.

Our 2010 and 2011 underwriting year loss ratios opened slightly higher than in the previous years to reflect the rating and claims environment and to allow consistency to be maintained in our reserving philosophy. Our 2012 and 2013 underwriting years opening loss ratios were lower than 2011 reflecting the growing benefit of our breach response product to the business mix.

24 Insurance liabilities and reinsurance assets *continued*

Claim releases

The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by department and period. Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released on those classes affected by superstorm Sandy.

The net of reinsurance estimates of ultimate claims costs on the 2012 and prior underwriting years has improved by $218.0m during 2013 (2012: $126.0m). This movement has arisen from a combination of better than expected claims experience coupled with small changes to the many assumptions reacting to the observed experience and anticipating any changes as a result of the new business written.

The movements shown on 2010 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2013	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	66.2	136.0	44.1	155.9	85.1	449.8	937.1
Prior year							
– 2010 underwriting year and earlier	(1.4)	(14.8)	(27.8)	(18.9)	(18.4)	(43.4)	(124.7)
– 2011 underwriting year	7.0	(21.4)	(3.8)	(8.0)	(9.6)	(3.2)	(39.0)
– 2012 underwriting year	(1.0)	(11.1)	(7.8)	(6.8)	(27.6)	–	(54.3)
	4.6	(47.3)	(39.4)	(33.7)	(55.6)	(46.6)	(218.0)
Net insurance claims	**70.8**	**88.7**	**4.7**	**122.2**	**29.5**	**403.2**	**719.1**

2012	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	46.9	144.6	44.8	146.6	94.3	427.2	904.4
Prior year							
– 2009 underwriting year and earlier	–	(9.4)	(22.4)	(6.7)	(4.8)	(47.8)	(91.1)
– 2010 underwriting year	–	(10.3)	(4.3)	5.4	(3.8)	(3.7)	(16.7)
– 2011 underwriting year	(0.5)	(8.0)	(6.4)	(4.9)	1.6	–	(18.2)
	(0.5)	(27.7)	(33.1)	(6.2)	(7.0)	(51.5)	(126.0)
Net insurance claims	**46.4**	**116.9**	**11.7**	**140.4**	**87.3**	**375.7**	**778.4**

25 Borrowings

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

Group	2013 $m	2012 $m
Carrying value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	132.1	176.5
Retail bond	123.0	120.5
	273.1	**315.0**
Fair value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	135.9	178.7
Retail bond	128.9	127.7
	282.8	**324.4**

Company	2013 $m	2012 $m
Carrying value		
Retail bond	123.0	120.5
Fair value		
Retail bond	128.9	127.7

The fair value of the tier 2 subordinated debt and retail bond is based on quoted market prices. For the subordinated debt that is not quoted, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

In November 2004, the group issued subordinated debt of US $18m to JPMorgan Chase Bank, N.A. (JPMorgan). The loan is unsecured and interest is payable at the USD London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. The subordinated notes are due in November 2034 and have been callable at the group's option since 2009.

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first call at the group's option in October 2016. Interest of 7.25% per annum is paid annually in arrears for the period up to October 2016. From October 2016, the notes will bear annual interest at the rate of 3.28% above LIBOR. In February 2013 we bought back an additional nominal amount of £26.2m, bringing the total debt buyback since 2012 to £73.5m. Refer to note 8 for further detail on the debt buyback.

In September 2012, the group issued £75m of sterling denominated 5.375% notes due 2019. Interest at a fixed rate of 5.375% is payable in March and September each year.

In addition to these borrowings we operate a syndicated short-term banking facility, managed through Lloyds Banking Group plc. In June 2013 we renewed our syndicated short-term banking facility led by Lloyds Banking Group plc. The facility provides potential borrowings up to $225m. The agreement is based on a commitment fee of 0.6% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2016, whilst letters of credit issued under the facility can be used to provide support for the 2013, 2014 and 2015 underwriting years. The facility is currently unutilised.

26 Other payables

Group	2013 $m	2012 $m
Reinsurance premiums payable	191.3	244.5
Accrued expenses including staff bonuses	89.4	87.9
Other payables	4.5	1.9
Deferred consideration payable on acquisition of MGAs	7.1	12.9
Due to syndicate 6107	15.5	13.7
	307.8	**360.9**

Company	2013 $m	2012 $m
Other payables	1.8	1.9
	1.8	**1.9**

All other payables are payable within one year of the reporting date other than deferred consideration which is payable after one year. The carrying value approximates fair values.

27 Retirement benefit obligations

	2013 $m	2012 (restated) $m
Present value of funded obligations	39.9	33.1
Fair value of plan assets	(37.5)	(32.4)
Retirement benefit liability in the statement of financial position	**2.4**	**0.7**
Amounts recognised in the statement of profit or loss		
Current service cost	–	–
Interest cost	1.3	1.3
Expected return on plan assets	(1.3)	(1.0)
	–	**0.3**

Beazley Furlonge Limited operates a defined benefit pension scheme ('the Beazley Furlonge Limited Pension Scheme'). The scheme provides the following benefits:

- an annual pension payable to the member from his or her normal pension age (60th birthday) of generally 1/60th of final pensionable salary for each year of pensionable service up to 31 March 2006;
- a spouse's pension of 2/3rds of the member's pension payable on the member's death after retirement;
- a lump sum of four times current pensionable salary for death in service at the date of death;
- a pension of 2/3rds of the member's prospective pension at the date of death, payable to the spouse until their death. This pension is related to salary at the date of death.

The scheme is administered by a trust that is legally separated from the group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules.

The scheme exposes the group to additional actuarial, interest rate and market risk.

Contributions to the scheme are determined by a qualified actuary using the projected unit method as set out in the scheme rules and the most recent valuation was at 31 December 2013. The group expects to pay $1.6m in contributions to the scheme in 2014.

27 Retirement benefit obligations *continued*

	2013 $m	2012 (restated) $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**33.1**	**27.4**
Current service cost	–	–
Interest cost	1.3	1.3
Actuarial losses	4.9	2.9
Benefits paid	(0.3)	(0.3)
Foreign exchange loss	0.9	1.8
Balance at 31 December	**39.9**	**33.1**
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**32.4**	**26.6**
Expected return on plan assets	1.3	1.0
Actuarial gains	1.8	1.8
Employer contributions	1.6	1.6
Benefits paid	(0.3)	(0.3)
Foreign exchange gain	0.7	1.7
Balance at 31 December	**37.5**	**32.4**
Plan assets are comprised as follows:		
Equities	20.2	16.3
Bonds	14.3	14.7
Cash	3.0	1.4
Total	**37.5**	**32.4**

The actual gain on plan assets was $3.1m (2012: $2.8m).

	2013 $m	2012 $m
Principal actuarial assumptions		
Discount rate	4.4%	4.1%
Inflation rate	3.4%	2.4%
Expected return on plan assets	4.4%	4.1%
Future salary increases	6.2%	5.2%
Future pensions increases	2.9%	2.1%
Life expectancy for members aged 60 at 31 December 2013	90 years	89 years
Life expectancy for members aged 46 at 31 December 2013	92 years	91 years

At 31 December 2013, the weighted-average duration of the defined benefit obligation was 12.8 years (2012: 12.9 years)

27 Retirement benefit obligations *continued*

Sensitivity analyses

Changes in the relevant actuarial assumptions would result in a change in the value of the funded obligation as shown below:

31 December 2013	Increase $m	Decrease $m
Discount rate (0.5% decrease)	5.4	–
Inflation rate (0.3% decrease)	–	2.8
Future salary changes (0.5% decrease)	–	0.2
Life expectancy (1 year increase)	0.9	–

31 December 2012	Increase $m	Decrease $m
Discount rate (0.5% decrease)	4.1	–
Inflation rate (0.3% decrease)	–	2.2
Future salary changes (0.5% decrease)	–	0.1
Life expectancy (1 year increase)	0.6	–

28 Deferred tax

	2013 $m	2012 $m
Deferred tax asset	8.7	11.0
Deferred tax liability	(65.0)	(84.0)
	(56.3)	**(73.0)**

The movement in the net deferred income tax is as follows:		
Balance at 1 January	(73.0)	(67.7)
Income tax credit/(charge)	15.6	(5.4)
Amounts recorded through equity	0.7	–
Foreign exchange translation differences	0.4	0.1
Balance at 31 December	**(56.3)**	**(73.0)**

	Balance 1 Jan 13 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 13 $m
Plant and equipment	0.4	0.1	–	–	0.5
Intangible assets	0.2	1.2	–	–	1.4
Underwriting profits	(204.1)	135.0	–	–	(69.1)
Tax losses	127.1	(118.4)	–	–	8.7
Other	3.4	(2.3)	0.7	0.4	2.2
Net deferred income tax account	**(73.0)**	**15.6**	**0.7**	**0.4**	**(56.3)**

	Balance 1 Jan 12 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 12 $m
Plant and equipment	0.7	(0.3)	–	–	0.4
Intangible assets	(0.7)	0.9	–	–	0.2
Underwriting profits	(389.9)	185.8	–	–	(204.1)
Tax losses	319.0	(191.9)	–	–	127.1
Other	3.2	0.1	–	0.1	3.4
Net deferred income tax account	**(67.7)**	**(5.4)**	**–**	**0.1**	**(73.0)**

The group has recognised deferred tax assets on unused tax losses to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilised, as supported by financial projections.

29 Operating lease commitments

The group leases land and buildings under non-cancellable operating lease agreements.

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

	2013 $m	2012 $m
No later than one year	8.2	8.8
Later than one year and no later than five years	30.7	29.3
Later than five years	18.6	18.5
	57.5	**56.6**

30 Related party transactions

The group and company have related party relationships with syndicates 623 and 6107, its subsidiaries, associates and its directors.

30.1 Syndicates 623 and 6107

The group received management fees and profit commissions for providing a range of management services to syndicates 623 and 6107, which are managed by the group. In addition, the group ceded portions or all of a group of insurance policies to syndicate 6107.

Details of transactions entered into and the balances with these syndicates are as follows:

	2013 $m	2012 $m
Written premium ceded to syndicates	23.8	11.9
Other income received from syndicates	30.8	24.0
Services provided	33.3	29.1
Balances due:		
Due from syndicate 623	17.0	19.0
Due to syndicate 6107	(15.5)	(13.7)

30.2 Key management compensation

	2013 $m	2012 $m
Salaries and other short-term benefits	19.7	16.4
Post-employment benefits	0.8	0.7
Share-based remuneration	9.4	7.3
	29.9	**24.4**

Key management include executives and non-executive directors and other senior management.

Further details of directors' shareholdings and remuneration can be found in the directors' remuneration report on pages 74 to 98.

30.3 Other related party transactions

At 31 December 2013, the group had a balance payable to the associate (Falcon Money Management Limited) of $0.1m (2012: receivable $1.4m) and purchased services from the associate of $8.8m (2012: $8.3m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis.

31 Parent company and subsidiary undertakings

Beazley plc is the ultimate parent and the ultimate controlling party within the group.

The following is a list of all the subsidiaries in the group:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary ($m)
Beazley Group Limited*	England	100%	Intermediate holding company	USD	*
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley DAS Limited	England	100%	Dividend access scheme	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Re Limited	Ireland	100%	Underwriting at Lloyd's	USD	747.2
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beyond Group Holdings Pty Ltd	Australia	100%	Intermediate holding company	AUD	
Blue-GUM Special Risks Pty Ltd	Australia	100%	Insurance services	AUD	
Australian Income Protection Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.	USA	100%	Underwriting admitted lines	USD	
First State Management Group, Inc	USA	100%	Insurance services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
					747.2

* Beazley plc holds direct investment in Beazley Group Limited of $2.

32 Contingencies

32.1 Funds at Lloyd's

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

	Underwriting year 2014 £m	Underwriting year 2013 £m	Underwriting year 2012 £m
Debt securities and other fixed income securities	563.0	558.0	482.9

32.2 Financial guarantee

The parent company has provided a financial guarantee in favour of its subsidiary Beazley Insurance Company, Inc. which unconditionally guarantees the payment of amounts due to third-party reinsurers in the event of the inability of the subsidiary company to meet its obligations.

33 Foreign exchange rates

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

	2013		2012	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.64	0.60	0.63	0.61
Canadian dollar	1.03	1.06	0.99	0.99
Euro	0.76	0.72	0.77	0.75

34 Subsequent events

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

Glossary

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

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

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

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

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

Capital growth assets
These are assets that do not pay a regular income and target an increase in value over the long-term. They will typically have a higher risk and volatility than that of the core portfolio. Currently these are the hedge 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.

Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange.

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

Deferred acquisition costs (DAC)
Costs incurred for the acquisition or the renewal of insurance policies (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 certain 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 independent accounting body responsible for developing IFRS.

Glossary *continued*

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. It operates by purchasing a portion or all of a group of insurance policies, typically CAT exposures. These companies have become quite prominent in the aftermath of Hurricane Katrina as a vehicle to add risk-bearing capacity, and for investors to participate in the potential profits resulting from sharp price increases.

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 reporting date in the underwriting provisions.

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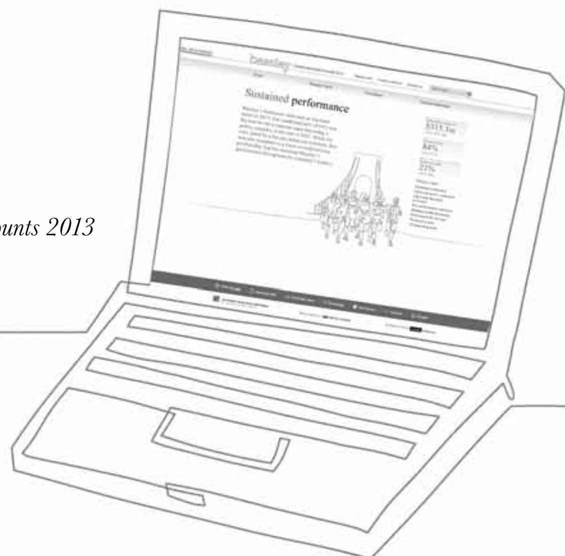

Beazley plc

2 Northwood Avenue
Northwood Park
Santry Demesne
Santry
Dublin 9 | Ireland

Phone: +353 (0)1 854 4700
Fax: +353 (0)1 842 8481

Registered number: 102680

www.beazley.com