

Company number 04082477

BEAZLEY GROUP LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

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COMPANIES HOUSE

Beazley Group Limited

Directors and advisors

Directors

M L Bride
D A Horton
S A Coope

Secretary

Hampden Legal Plc,
Hampden House,
Great Hampden,
Great Missenden,
Buckinghamshire
HP16 9RD

Registered office

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

Registered Number

04082477

Auditors

KPMG Audit Plc
15 Canada Square
London
E14 5GL

Banker

Lloyds Banking Group plc
113-116 Leadenhall Street
London
EC3A 4AX

Beazley Group Limited

Directors' report

The directors present their report and the audited financial statements of Beazley Group Limited ('the Company', registered number: 04082477) for the year ended 31 December 2011

Business review and principal activity

Beazley Group plc was previously the ultimate parent company of the Beazley Group until the re-domiciliation to Ireland, at which point it de-listed and became Beazley Group Limited. Beazley plc was incorporated in Jersey on 20 February 2009 under the Jersey Companies Law as a public company limited by shares and with registered number 102680. With effect from 9 June 2009, under a scheme of arrangement involving a share exchange with the members of Beazley Group plc, the company became the new holding company of the Beazley group of companies.

Throughout the period from incorporation to 9 June 2009 Beazley plc was a shell company with no material revenues and assets and did not constitute a 'business' as defined by IFRS 3 *Business combinations*. Consequently, due to the relative values of both companies, the shareholders of Beazley Group plc immediately before the share exchange acquired, in effect, 100 per cent of the share capital of Beazley plc on completion of the transaction.

In order to appropriately reflect the substance of the transaction outlined above, the new holding company has been accounted for using the reverse acquisition principles outlined in IFRS 3. Consequently, Beazley Group plc is deemed to be the acquirer for accounting purposes and the legal parent company, Beazley plc is treated as a subsidiary whose identifiable assets and liabilities are incorporated into the group at fair value. This is reflected in the financial statements of Beazley plc.

Beazley Group Limited is the parent company of Beazley Furlonge Holdings Limited, which is the intermediate holding company for all the subsidiaries of the Beazley Group.

Going Concern

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

As a wholly owned subsidiary of Beazley plc, the Directors expect the company to have adequate resources to remain in existence for the foreseeable future.

Results and dividends

The results of the company for the year are shown in the income statement on page 6. During the year dividends of \$nil (2010: \$nil) were paid.

Directors

The directors of the company at 31 December 2011, who served during the year and to the date of this report, were as follows:

M L Bride
D A Horton
S A Coope

Payment of suppliers

It is the company's normal practice to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions.

Beazley Group Limited

Directors' report (continued)

Donations

No charitable or political donations were made by the company in either the current or prior reporting year.

Disclosure of information to auditors

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

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

On behalf of the board



D A Horton
Director

03 April 2012

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

Beazley Group Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. 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 company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities



M L Bride
Director

03 April 2012

Beazley Group Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY GROUP LIMITED

We have audited the financial statements of Beazley Group Limited for the year ended 31 December 2011 set out on pages 6 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Stuart Crisp (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London
E14 5GL

03 April 2012

Beazley Group Limited

Income statement for the year ended 31 December 2011

	Note	2011 \$m	2010 \$m
Revenue	3	79.6	-
Administrative expenses		<u>(1.8)</u>	<u>(14.1)</u>
Operating profit/(loss)	4	77.8	(14.1)
Finance costs		(16.8)	(15.9)
Net investment income	5	<u>0.2</u>	<u>(0.6)</u>
Profit/(loss) on ordinary activities before taxation		61.2	(30.6)
Taxation credit	6	<u>2.6</u>	<u>9.0</u>
Profit/(loss) for the financial year		<u>63.8</u>	<u>(21.6)</u>

The company's operating activities all relate to continuing operations.

The notes on pages 10 to 24 form part of these financial statements.

Beazley Group Limited

Statement of financial position as at 31 December 2011

	Note	2011 \$m	2010 \$m
Assets			
Investment in subsidiaries	7	191.0	191.0
Financial assets	8	4.9	93.2
Deferred tax	11	-	2.3
Current income tax		4.5	7.1
Other receivables	9	181.0	151.2
Cash and cash equivalents	10	2.4	19.9
Total assets		383.8	464.7
Liabilities			
Borrowings	12	264.8	268.2
Other payables	13	92.7	234.0
Total liabilities		357.5	502.2
Total assets less liabilities		26.3	(37.5)
Capital and reserves			
Share capital	14	-	-
Share premium		-	-
Foreign currency translation reserves		(21.5)	(21.5)
Retained earnings	15	47.8	(16.0)
Total equity/(deficit)		26.3	(37.5)

Signed on behalf of the board of directors by



M L Bride
Director

The financial statements were approved by the board of directors on 03 April 2012.

The notes on pages 10 to 24 form part of these financial statements

Beazley Group Limited

Statement of comprehensive income for the year ended 31 December 2011

	2011 \$m	2010 \$m
Profit/(loss) after tax	63.8	(21.6)
Other comprehensive income comprises		
Foreign exchange translation differences	-	1.7
Total other comprehensive income	-	1.7
Total comprehensive income recognised	63.8	19.9

Statement of changes in equity for the year ended 31 December 2011

	Share capital \$m	Share premium \$m	Other reserves \$m	Retained earnings \$m	Total \$m
Balance at 1 January 2010	-	-	(23.2)	5.6	(17.6)
Total comprehensive income recognised	-	-	1.7	(21.6)	(19.9)
Balance at 31 December 2010	-	-	(21.5)	(16.0)	(37.5)
Total comprehensive income recognised	-	-	-	63.8	63.8
Balance at 31 December 2011	-	-	(21.5)	47.8	26.3

Beazley Group Limited

Statement of cash flows for the year ended 31 December 2011

	Notes	2011 \$m	2010 \$m
Cash flow from operating activities			
Profit/(Loss) before tax		61.2	(30.6)
Adjustments for:			
Retranslation of overseas net assets		-	15.6
(Decrease)/increase in other liabilities		(139.2)	218.9
Decrease/(increase) in other receivables		(31.9)	(189.8)
Financial income		(0.2)	0.6
Financial expense		16.8	15.9
Income tax received		7.5	12.1
Change in fair value of foreign exchange contract		(1.0)	-
Change in fair value of borrowings		(3.4)	(5.1)
Net cash (used in)/from operating activities		(90.2)	37.6
Cash flow from investing activities			
Purchase of investments		(85.1)	(238.1)
Proceeds from sale of investments		174.4	178.7
Interest and dividends received		0.2	(0.6)
Net cash from/(used in) investing activities		89.5	(60.0)
Cash flow from financing activities			
Interest paid		(16.8)	(15.9)
Net cash used in financing activities		(16.8)	(15.9)
Net decrease increase in cash and cash equivalents		(17.5)	(38.3)
Cash and cash equivalents at beginning of year		19.9	60.9
Effect of exchange rate changes on cash and cash equivalents		-	(2.7)
Cash and cash equivalents at end of year	10	2.4	19.9

Beazley Group Limited

Notes to the financial statements

1. Statement of accounting policies

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

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

IFRS 7 (amended), 'Financial instruments: Disclosures'. The amendments require an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.

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

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

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

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

In addition, the following is a list of standards that are in issue but are not yet effective in 2011, and have not yet been adopted in the EU, together with the effective date of application to the company

- IAS 12 Amendment: Deferred tax. Recovery of underlying assets (effective 1 January 2012)
- IAS 1 Amendment Presentation of items of other comprehensive income (effective 1 July 2012)
- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10: Consolidated financial statements (effective 1 January 2013)
- IFRS 11: Joint arrangements (effective 1 January 2013)
- IFRS 12: Disclosure of interests in other entities (effective 1 January 2013)
- IFRS 13: Fair Value Measurement (effective 1 January 2013)
- IAS 19 Amendment Defined benefit plans (effective 1 January 2013)
- IAS 32 Amendment Offsetting financial assets and financial liabilities (effective 1 January 2014)
- IFRS 7: Amendment: Offsetting financial assets and liabilities (effective 1 January 2013).

The implications of these standards and interpretations are under review

Beazley Group Limited

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

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

Basis of presentation

The financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs').

The 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.

These financial statements are not consolidated accounts per the exemption contained in IAS 27, since Beazley Group Limited is 100% owned and controlled by Beazley plc.

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 in note 2 on risk management

Revenue

Revenue comprises dividends and interest receivable from subsidiaries

Dividends paid

Dividend distribution to the shareholder of the company is recognised in the period in which the dividends are approved by the shareholders in the company's annual general meeting. Interim dividends are recognised in the period in which they are paid

Investments in subsidiaries

Investments in subsidiary undertakings and associates are stated at cost less any impairments

Income taxes

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

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at 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 liability and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date

Beazley Group Limited

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

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.

Financial instruments

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

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

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

Financial assets

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

a) Financial assets at fair value through income statement

Except for derivative financial instruments, all financial assets are designated as fair value through the income statement 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 company's key management. The company's investment strategy is to invest and evaluate their performance with reference to their fair values.

b) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the company 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 company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (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 company, 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 company 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.

Beazley Group Limited

Notes to the financial statements (continued)

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 company 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 company 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 the income statement are recognised in the income statement when incurred. Financial assets at fair value through the income statement are measured at fair value, and changes therein are recognised in the income statement. Net changes in the fair value of financial assets at fair value through the income statement exclude interest and dividend income.

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

Other receivables

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

Borrowings

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

Finance costs comprise interest, 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 income statements using the effective interest method.

Other payables

Other payables are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and deposits held at call with banks.

Beazley Group Limited

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

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 method of recognising the resulting fair value gains or losses depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

The company designates certain derivatives as fair value hedges or net investment hedges

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

a) Fair value hedges

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

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

No fair value hedges were utilised in 2011.

b) Net investment hedges

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented within equity in other reserves; the gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'net fair value gains/(losses) on financial investments' through the income statement.

Gains and losses accumulated in other comprehensive income are transferred to the income statement as part of the gain or loss on disposal of the foreign operation

No net investment hedges are utilised in 2011.

Foreign currency translation

Foreign currency transactions have been translated into US dollars, being the company's 'functional currency', at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into dollars at the rate of exchange prevailing at the reporting date. Any differences arising from this conversion have been taken into the profit and loss account.

Beazley Group Limited

Notes to the financial statements (continued)

2 Risk management

The company 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 sections below outline the company's risk appetite and explain how it defines and manages each category of risk.

2.1 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due.

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 company's concentrations of credit risk

	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
31 December 2011						
Financial assets						
- Financial investments	-	-	-	-	-	-
- Derivative financial instruments	-	-	-	-	4.9	4.9
Cash and cash equivalents	2.4	-	-	-	-	2.4
Other receivables	-	-	-	-	181.0	181.0
Total	2.4	-	-	-	185.9	188.3

	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
31 December 2010						
Financial assets						
- Financial investments	89.3	-	-	-	-	89.3
- Derivative financial instruments	-	-	-	-	3.9	3.9
Cash and cash equivalents	19.9	-	-	-	-	19.9
Other receivables	-	-	-	-	151.2	151.2
Total	109.2	-	-	-	155.1	264.3

The financial investments valuation methodology is described in the accounting policies.

The carrying amount of financial assets at the reporting date represents the maximum credit exposure.

The majority of other receivables consist of amounts owed from other entities within the group. These are classified as unrated as they are unable to be classified under the Tiers described above.

Beazley Group Limited

Notes to the financial statements (continued)

2 Risk management (continued)

2.2 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The company is exposed to payments on servicing its borrowings.

The following table is an analysis of the net cash flows based on all the liabilities held at 31 December 2011 and 31 December 2010:

31 December 2011	<i>Within 1 year</i>	<i>2-3 years</i>	<i>4-5 years</i>	<i>Greater than 5 years</i>	Total
Borrowings	-	-	246.8	18.0	264.8
Other payables	92.7	-	-	-	92.7

31 December 2010	<i>Within 1 year</i>	<i>2-3 years</i>	<i>4-5 years</i>	<i>Greater than 5 years</i>	Total
Borrowings	-	-	-	268.2	268.2
Other payables	234.0	-	-	-	234.0

2.3 Foreign exchange risk

The company does not have exposure to foreign currency, other than the subordinated debt mentioned above

2.4 Interest rate risk

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

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

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

Beazley Group Limited

Notes to the financial statements (continued)

Duration

31 December 2011	<1 yr \$m	1-2 yrs \$m	2-3 yrs \$m	3-4 yrs \$m	4-5 yrs \$m	5-10 yrs \$m	>10 yrs \$m	Total \$m
Debt securities	-	-	-	-	-	-	-	-
Cash and cash equivalents	2.4	-	-	-	-	-	-	2.4
Derivative financial instruments	-	-	-	-	-	4.9	-	4.9
Borrowings						(246.8)	(18.0)	(264.8)
Total	2.4	-	-	-	-	(241.9)	(18.0)	(257.5)

31 December 2010	<1 yr \$m	1-2 yrs \$m	2-3 yrs \$m	3-4 yrs \$m	4-5 yrs \$m	5-10 yrs \$m	>10 yrs \$m	Total \$m
Debt securities	33.1	5.4	13.0	7.2	29.1	1.5	-	89.3
Cash and cash equivalents	19.9	-	-	-	-	-	-	19.9
Derivative financial instruments	-	-	-	-	-	3.9	-	3.9
Borrowings	-	-	-	-	-	(250.2)	(18.0)	(268.2)
Total	53.0	5.4	13.0	7.2	29.1	(244.8)	(18.0)	(155.1)

2.5 Price risk

Debt securities that are recognised on 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.

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

The market price of debt securities has an inverse relationship to interest yields. Sensitivity analyses on interest yields is discussed above.

Beazley Group Limited

Notes to the financial statements (continued)

3. Revenue

Revenue consists of dividends received from subsidiary companies and is comprised as follows

	2011	2010
	\$m	\$m
Beazley Furlonge Holdings Limited	79.6	-
	<u>79.6</u>	<u>-</u>

4. Loss on ordinary activities before taxation

The audit fees of \$4,974 for the current financial year have been paid by Beazley Management Limited (2010: \$4,606).

5. Net investment income

	2011	2010
	\$m	\$m
Investment income on fair value through income statement financial assets	1.9	(3.5)
Realised losses on assets	(0.6)	(0.5)
Net fair value gains/(losses) on financial investments through income statement	0.4	(0.5)
Fair value (loss)/gain on derivative	(1.5)	3.9
Investment management expenses	-	-
	<u>0.2</u>	<u>(0.6)</u>

6. Taxation

	2011	2010
	\$m	\$m
Current tax:		
UK corporation tax at 26.5% (2010: 28%)	(4.5)	(7.2)
Prior period adjustment	(0.5)	(0.6)
	<u>(5.0)</u>	<u>(7.8)</u>
Deferred tax		
Origination/reversal of timing differences	-	(2.4)
Prior period adjustment	(2.4)	1.1
Effect of change in tax rate*	-	0.1
	<u>(2.6)</u>	<u>(9.0)</u>

Beazley Group Limited

Notes to the financial statements (continued)

6. Taxation (continued)

Factors affecting the tax charge for the current and prior years

The current tax charge for both the current year and prior years is lower than the standard rate of corporation tax in the UK, 26.5% (2010: 28%) due to the differences explained below

	2011 \$m	2010 \$m
<i>Corporation tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	61.2	(30.6)
Current tax at 26.5% (2010: 28%)	16.2	(8.6)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	0.4	(1.0)
Franked investment income	(21.1)	-
Prior period adjustment	1.8	0.5
Change in UK tax rate	-	0.1
	<u>(2.6)</u>	<u>(9.0)</u>

7. Investment in subsidiaries

	2011 \$m	2010 \$m
Investment in subsidiaries	<u>191.0</u>	<u>191.0</u>

The investments in subsidiaries consist of an investment in Beazley Furlonge Holdings Limited and Beazley DAS Limited.

8. Financial assets

	2011 \$m	2010 \$m
Financial assets at fair value through income statement		
Debt securities		
- Fixed rate securities	-	76.9
- Floating rate securities	-	12.4
Derivative financial instruments		
- Forward foreign exchange contracts	4.9	3.9
Total financial assets at fair value through income statement	<u>4.9</u>	<u>93.2</u>
Current	-	70.6
Non-current	4.9	22.6
	<u>4.9</u>	<u>93.2</u>

Beazley Group Limited

Notes to the financial statements (continued)

8. Financial assets (continued)

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 major G-8 government and government agencies.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g interest rates, exchange rates)

Included within Level 2 are non-G8 government bonds and treasury bills, 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 on 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 market place, 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 judgment. Accordingly the degree of judgment exercised by management in determining fair value is greatest for instruments classified in Level 3. The company uses prices and inputs that are current as of the measurement date for valuation of these instruments.

All of the company's financial assets at year end are foreign exchange derivatives that would be classified as level 2. There were no transfers between fair value hierarchies during the year.

9. Other receivables

	2011 \$m	2010 \$m
Amounts owed by group undertakings	153.9	142.8
Amounts owed by syndicate 623	23.3	0.9
Other debtors	3.8	5.4
Prepayments and accrued income	-	2.1
	181.0	151.2

All other receivables are due within 1 year of the reporting date. The carrying value approximates fair values

10. Cash and cash equivalents

	2011 \$m	2010 \$m
Cash at bank and in hand	0.3	12.2
Short-term deposits	2.1	7.7
Cash and cash equivalents	2.4	19.9

Beazley Group Limited

Notes to the financial statements (continued)

11. Deferred tax

The movement in deferred tax during the period was:

	2011 \$m	2010 \$m
Opening balance	2.3	1.1
Movements during the year	0.1	2.3
Prior year adjustment	(2.4)	(1.1)
Closing balance	-	2.3
Deferred tax assets provided in the accounts are:		
Timing differences	-	2.3

The Company has taxable losses giving rise to an estimated unrecognised deferred tax asset of \$2.2m, measured at the corporation tax rate from 1 April 2012 of 25%. These tax losses have not been recognised in the year as they are not expected to be realised in the foreseeable future based on current taxable profit forecasts and projections.

12. Borrowings

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

	2011 \$m	2010 \$m
Carrying value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	246.8	250.2
	264.8	268.2
Fair value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	189.1	184.6
	207.1	202.6

The fair value of the tier 2 subordinated debt 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 US 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 callable 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. The notes were assigned a credit rating of BBB- by S&P's rating services.

Beazley Group Limited

Notes to the financial statements (continued)

12. Borrowings (continued)

In April 2010 the group traded out of the interest rate swap and cross currency swap transactions. We traded out of the currency component of the original derivative transaction since this was originally intended to act as a hedge against the group's investment in its US subsidiaries. Following the change in functional and presentation currency to US dollars this hedge was no longer required.

In addition to these borrowings we operate a syndicated short-term banking facility, managed through Lloyds Banking Group plc.

In June 2011 we renewed our existing syndicated short-term banking facility led by Lloyds Banking Group plc. The facility provides potential borrowings up to \$225m. The new agreement is based on a commitment fee of 0.7% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2014, whilst letters of credit issued under the facility can be used to provide support for the 2011, 2012 and 2013 underwriting years. The facility is currently unutilised.

13. Other payables

	2011 \$m	2010 \$m
Amounts due to group companies	88.9	229.5
Accruals and deferred income	3.6	3.5
Other	0.2	1.0
	92.7	234.0

All other payables are payable within 1 year of the reporting date and do not incur an interest charge. The carrying value approximates fair values.

14. Share capital

	2011		2010	
	No. of shares (m)	\$m	No. of shares (m)	\$m
Ordinary shares of 5p each				
Authorised*	-	-	-	-
Issued and fully paid*	-	-	-	-
Balance at 1 January and 31 December	-	-	-	-

With effect from 9 June 2009, under a scheme of arrangement involving a share exchange with the members of Beazley Group plc, Beazley plc became the new holding company of the Beazley Group of companies. This resulted in a share cancellation in Beazley Group plc, it de-listed and became Beazley Group Limited.

* After the scheme of arrangement mentioned above, the company was left with a minimal amount of issued and fully paid share capital.

Beazley Group Limited

Notes to the financial statements (continued)

15. Profit and loss account

	2011 \$m	2010 \$m
Balance brought forward at 1 January	(16.0)	5.6
Profit/(loss) for the financial year	63.8	(21.6)
Balance carried forward 31 December	47.8	(16.0)

16. Ultimate parent undertaking

The ultimate parent undertaking is Beazley plc, incorporated in Jersey. The largest and the smallest company in which the results of the company are consolidated is that headed by Beazley plc. No other company financial statements include the results of the company. The consolidated financial statements of Beazley plc can be obtained from the website www.beazley.com

17. Related Party disclosure

The company has related party relationships with all subsidiaries, associates and its directors in the Beazley group.

Details of transactions entered into by Beazley Group Limited and the balances with the subsidiaries are as follows:

	2011 \$m	2010 \$m
Services provided by Beazley Management Limited expensed through Beazley Group Limited	0.3	0.9
Dividends received from Beazley Furlonge Holdings Limited (note 3)	79.6	-
Balances due from/(to):		
Syndicate 623	23.3	0.9
Syndicate 2623	17.0	(5.4)
Beazley Furlonge Limited	(18.3)	(51.4)
Beazley Furlonge Holdings Limited	19.3	45.4
Beazley Management Limited	(47.4)	-
Beazley Underwriting Limited	(7.8)	(53.8)
Beazley Staff Underwriting Limited	1.9	0.7
Beazley USA Services, Inc.	21.9	22.0
Beazley Solutions Limited	1.1	0.6
Tasman Corporate Limited	(1.3)	(5.5)
Syndicate 3622	(1.0)	-
Syndicate 3623	(2.2)	-
Beazley Underwriting Pty Ltd	11.8	-
Beazley Underwriting Services Ltd	(10.8)	(10.9)
Beazley Re Limited	-	(102.4)
Beazley plc	80.8	74.0
	<u>88.3</u>	<u>(85.8)</u>
Amounts owed by syndicate 623	23.3	0.9
Amounts owed by group undertakings	153.9	142.8
Amounts due to group companies	(88.9)	(229.5)
	<u>88.3</u>	<u>(85.8)</u>

Beazley plc is the ultimate parent and the ultimate controlling party within the Beazley group.

Beazley Group Limited

Notes to the financial statements (continued)

17. Related Party disclosure (continued)

The following is a list of all the subsidiaries who are related parties of Beazley Group Limited:

	Country of incorporation	Ownership interest	Nature of business
Beazley Group Limited	England	100%	Intermediate holding company
Beazley Finance Limited	England	100%	Intermediate holding company
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents
Beazley Investments Limited	England	100%	Investment company
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's
Beazley Management Limited	England	100%	Intermediate management company
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's
Beazley Solutions Limited	England	100%	Insurance services
Beazley Capital Management Ltd	England	100%	Investment services
Beazley Underwriting Services Ltd	England	100%	Insurance services
Beazley DAS Limited	England	100%	Dividend access scheme
Beazley Re Limited	Ireland	100%	Underwriting at Lloyd's
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services
Beazley USA Services, Inc	USA	100%	Insurance services
Beazley Holdings, Inc	USA	100%	Holding company
Beazley Group (USA) General Partnership	USA	100%	General partnership
Beazley Insurance Company, Inc	USA	100%	Underwrite admitted lines
Beazley Limited	Hong Kong	100%	Insurance services
Tasman Corporate Limited	England	100%	Underwriting at Lloyd's
Beazley Pte Limited	Singapore	100%	Underwriting at Lloyd's
Beyond Group Holdings Pty Ltd	Australia	100%	Intermediate holding company
Blue-GUM Special Risks Pty Ltd	Australia	100%	Insurance services
Australian Income Protection Pty Ltd	Australia	100%	Insurance services