


Company Number 4082477

BEAZLEY GROUP PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007

Annual Report 2007 FINAL

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ABOUT US

Based in London since 1986 and floated on the London Stock Exchange in 2002, Beazley (BEZ L) is the parent company of a global insurance and reinsurance business operating through Lloyd's syndicates 2623 and 623 in the UK and Beazley Insurance Company, Inc, a US-admitted carrier in all 50 states

Beazley is a market leader in many of its chosen lines of business, which include professional indemnity, marine, reinsurance, commercial property and personal lines

About Specialty lines

We underwrite primary and excess business from North America, Europe and around the world. We operate in a flat organisational structure where underwriters take ownership and a strategic perspective. They are encouraged to focus their efforts on understanding the needs and aspirations of their clients. We hire the very best people who are active risk takers. They understand the big picture as well as the detail, so they can make major decisions for clients without referral.

About Property

With an underwriting presence in London, the US and Singapore, our clients range from Fortune 1000 companies to homeowners. We build long term and mutually rewarding relationships with our clients. We shape ourselves around clients and what they need from an insurance policy. The service is totally integrated on every level - from imaginative and entrepreneurial underwriters, to specialist claims and policy wordings teams, supported by a rock solid, in-house technical team. Our underwriters are empowered to make rapid decisions and give straight answers, so they get the policy they need. And when it comes to making a claim? We want to pay it - not argue about it.

About Reinsurance

Our reinsurance clients renew with us year after year because we are specialists at handling challenging exposures. Our underwriters are empowered decision makers who employ the most up-to-date software and analytical tools to assist risk assessment. We are leaders in our field, and put time and resources into thinking ahead and developing compelling products that deliver tangible benefits. The reinsurance division also benefits from being part of the larger Beazley Group which provides the strength and security our clients can rely on.

About Marine

Marine insurance is a challenging business often involving high-risk ventures in volatile industries. We're open-minded and will therefore consider a wide range of marine risks. In 2006 global trade rose to US\$11.76 trillion and is growing. Our enthusiastic team has a wealth of experience and has established many rewarding relationships with all sorts of enterprises, from global corporations to family firms, because we know the risks their businesses are exposed to inside out. Whether it is trading goods internationally or being involved in the actual transportation of those goods, we deliver the products they need to meet the risks they face every minute of every day. We help insure 10% of the world's ocean-going tonnage and cover 35% of the top 200 oil and gas companies.

Further information about us is available at www.beazley.com

HIGHLIGHTS

The group has achieved a profit before tax of £138.5m

	2007	2006	2005
Profit before tax and foreign exchange adjustments on non-monetary items (£m)	130.3	96.2	7.9
Profit before tax (£m)	138.5	86.8	16.1
Cash and investments (£m)	1,490.6	1,167.8	884.5
Average investment return	4.9%	4.9%	4.2%
Average rate (reduction) / increase	(4%)	6%	-

Our vision

To build a premier risk-taking business measured by results and reputation

Our principles

- We are a specialist insurance and reinsurance business focusing on underwriting and claims handling
- The portfolio will comprise large and small risks, with a geographical spread, and having a balance between short and long tail business
- Products will be distributed through brokers
- We will provide an excellent service to brokers

CHAIRMAN'S STATEMENT

The group has had another tremendous year and we are delighted to announce record profits of £138.5m

Overall

The board is delighted to announce record profits before tax of £138.5m (2006: £86.8m). We are confident that our controlled approach to risk taking leaves us well placed to build on this result going forward.

Underwriting performance

We continued to grow the business during 2007. Gross premiums written increased by 5% to £780.5m. This was achieved in part through increasing the share of the premiums we write through the combined Lloyd's syndicates from 78% to 81% in 2007. The US business also increased its gross premiums contribution significantly to \$175.2m (2006: \$68.9m).

The group's net premiums written rose by 14% to £652.2m in 2007, mainly as a result of a change in the way the group buys reinsurance. In 2007, we increased the group's risk appetite to reflect the stronger capital base by buying less reinsurance. For example, in the specialty lines business reinsurance spend fell from 26% of gross premium in 2006 to 17% in 2007.

Market conditions

On average, the rate charged for business we renewed fell by 4% in 2007 (2006: increase of 6%). Rating levels generally still compare favourably to the early 2000's. The specialty lines business performed better than initially expected with decreases in rates of only 5%. Our shorter tail property insurance businesses enjoyed a reasonable start to the year but saw rates come under pressure in the second half. Property reinsurance rates eased but not to the same extent as the insurance business.

US business development

The US business continued to gather momentum during 2007. Premiums written by US-based underwriters were \$175.2m – more than two and a half times the \$68.9m written in 2006. The business was established in 2005, writing business through our managing general agent (MGA) on behalf of both our syndicates at Lloyd's and our domestic insurance company, Beazley Insurance Company Inc (BICI). This platform enables us to access business that would not traditionally have come to the Lloyd's market. To supplement the existing business, we acquired in February 2007 an MGA in Chicago called Sapphire Blue, which writes professional and general liability insurance for long term care institutions.

During 2007 \$64.3m was written directly to our Lloyd's syndicates and \$110.9m was generated by BICI, the admitted market insurance company. During the year the US operations extended their product range from professional and management liability insurance to include mid-sized commercial property.

In April 2007 we increased the capital of BICI by a further \$45m, bringing the total capital retained to \$105m. In November A.M. Best upgraded the company's financial strength rating from A- to A. This rating improvement should provide further support for the development of the underwriting platform in the US.

Combined ratio

The group's combined ratio remained stable at 88%. The claims ratio fell to 50% (2006: 53%). In 2007 we released £64.1m (2006: £31.0m) of the 2006 year end claims reserves. These reductions have been from reserves in both catastrophe exposed businesses and specialty lines business. The absence of major catastrophes enabled us to release £30.7m from our property, reinsurance, and marine accounts, while in specialty lines we were able to release £33.4m due to the continuing positive development of claims experience. We are hopeful that this positive claims development will continue in 2008.

We continue to invest in our US platform, which was one of the factors which increased our expenses ratio by 3% to 38%. During 2007 US employee numbers rose by 42 to 153.

Investment performance

Investment markets were particularly difficult in 2007 with the fallout from the global credit crisis beginning in the summer followed by volatile equity markets in the second half of the year. In spite of this instability, we were able to record increased investment income of £64.9m (2006: £48.3m) – a return of 4.9% (2006: 4.9%). We were impacted only marginally by the sub-prime mortgage bonds mark down – holding around 1% of our investments in these assets – none of which were collateralised debt obligations (CDO's), and all are AAA-rated. The portfolio comprises mainly fixed income bonds and cash, with less than 10% invested in other investments such as equities and hedge funds.

Capital

The group's capital position remains strong. In the finance director's section of this report, he describes the composition of the capital base – a mixture of shareholders funds, long term debt and short term banking facilities. The last of these, a syndicated £50m short term letter of credit facility, was recently renewed. The capital is used to support Lloyd's underwriting, the US insurance company, and to fund acquisitions of small insurance companies and MGA's which fit strategically with the business.

In November 2007, following a review of the group's capital position, the board authorised a rolling on-market share buyback programme to return excess capital to shareholders. We announced that 5% of our shares would be bought back and held as treasury shares within the group. At the end of 2007, £5.1m of shares representing 0.9% of our share capital had been repurchased.

We were pleased that Standard & Poors (S&P) upgraded our enterprise risk management (ERM) rating to "strong". This places us in the top 14% of insurers and reinsurance companies worldwide. A strong enterprise risk management culture throughout the organisation is a key asset to take us through the market cycle.

Dividend

The board propose a final dividend of 4.0p per share and an additional special dividend of 4.0p per share. This brings the full year dividend, including the interim dividend, to 10.0p per share (2006: 4.8p). The final dividend and the special dividend will be paid on 9 May 2008 to shareholders registered on 18 April 2008.

Management update

Since August 2007, Andrew Beazley has been undergoing medical treatment. This is progressing well and has only reduced to a limited extent his day to day involvement in the business. As and when required during this period, Nicholas Furlonge, co-founder of Beazley, has taken on Andrew's responsibilities as Chief Executive and Chairman of the Executive Committee. Johnny Rowell has

taken over from Andrew as chairman of the group's underwriting committee. This committee looks at all underwriting related matters within the group. The specialty lines division is undergoing a development of management structure that includes the formation of a new division, the political and contingency group (PCG).

Conclusion

We generated record profits in 2007 – a testament to the skill and hard work of our people. We continue to search out opportunities for growth and profit through carefully targeted initiatives, particularly in relation to US operations. We monitor developments closely in all our markets and will respond to the market cycle in the same disciplined fashion as we have done in the past.

Jonathan Agnew
Chairman

BUSINESS REVIEW

2007 has been another excellent year for the group. We have continued to grow the business – searching out strategic openings, pursuing vigorously the most profitable opportunities as well as building on long term client relationships.

Strategy

Our vision is to build a premium risk-taking business measured by results and reputation. Underpinning this vision are the following four principles:

- We are a specialist insurance and reinsurance business focusing on underwriting and claims handling.
- The portfolio will comprise both large and small risks, with a geographical spread, and a balance between short and long tail businesses.
- Products will be distributed through brokers.
- We will provide an excellent service to brokers.

The enablers that will help us achieve this are:

- **Access to business worldwide**
Developing new ways of providing customers with access to insurance products will help us grow the business profitably.
- **Claims management**
An exceptional claims management capability can be a source of competitive advantage for the group. Consequently, we are making a significant investment in this area.
- **Informed underwriting decisions**
The knowledge and expertise of underwriters is central to our ability to develop the classes of business we write.

Access to business worldwide

The Lloyd's broker network provides us with access to large complex specialist insurance risks from throughout the world and Lloyd's and London continue to be the hub for this type of business. We have also established offices in a number of overseas locations to access business that would not normally come to London.

US business

The US is by far the largest non-life insurance market in the world and has one of the highest levels of penetration by brokers through whom we deal. The US business is fully integrated with our London business and our underwriting is managed on a product line basis. We regard our US operations as a natural extension of the Lloyd's business – we target markets we know well. Having a presence on the

ground enables us to insure middle market and small scale risks which we would not normally insure through London

During 2007 the business grew with premiums increasing to \$175.2m for the year (2006 \$68.9m). Of the US\$175.2m, \$110.9m (2006 \$35.9m) was written through BICI, with the remainder being written directly to our two syndicates. The chart below illustrates both the growth in the business overall and the growing importance of the insurance company in generating these premiums.

During 2007 we extended the branch network in the US, expanding both specialty lines and property businesses. Our head office is in Farmington, Connecticut and we have offices in 8 other US states.

Specialty lines wrote \$134.6m in 2007 (2006 \$57.3m). Of this, \$90.4m was written on behalf of BICI and a further \$44.2m for the Lloyd's syndicates. The specialty lines team in the US targets small to mid-sized customers offering a variety of professional indemnity insurance (the current biggest segment being architects and engineers), and management liability insurances (principally directors' and officers' liability and employment practices liability). In February 2007, we acquired Sapphire Blue, a Chicago-based MGA, which writes professional and general liability insurance for long term care institutions. We knew the organisation well, having supported the agency's business for a number of years. In 2007 we wrote \$16.1m through Sapphire Blue.

The property group, which writes both commercial property insurance and high-value homeowners business in the US, wrote premiums of US\$39.3m in 2007 (2006 \$10.3m). We write US commercial property business on both an admitted basis through BICI, and on a surplus lines basis for the account of our Lloyd's syndicates. The admitted market business, which underwrites mid-sized commercial risks, was launched in February 2007 and is supported by our internally developed Beazley Trade underwriting system and offers brokers and clients service standards rarely matched in the domestic market. The high value homeowners' business, based in Florida, continues to develop a reputation as a high quality local insurer, writing business on a surplus lines basis. In 2007 it wrote premiums of \$14.3m (2006 \$10.3m).

Accessing markets worldwide

We continued to search out new geographical opportunities in 2007, writing business for the first time through our new branch offices in Paris and Singapore, complementing those offices already established in Hong Kong and the US. The France and Singapore offices both operate on the same basis, sourcing business locally on behalf of the Lloyd's syndicates. Building these branch operations enables us to access business we would not normally see, diversifying the portfolio geographically. In France we write professional indemnity insurance, within our specialty lines team, mainly focusing on protection for insurance brokers and agents. In Singapore, a team within the property group writes specialist engineering risks and is managed through the UK.

Claims management

Unlocking the value in claims

We continued investing in the claims service during 2007. The results to date have been positive, delivering improved underwriting and pricing capabilities, high client retention rates, lower cost of the claims, and improved confidence in results and reserving. Clients – both insureds and brokers – along with competitors recognise the benefits of this investment. In a poll of over 3,000 risk managers, insurers, reinsurers and brokers conducted by *Reactions* magazine, Beazley was awarded Best Insurance Company for Claims Handling. Furthermore, the specialty lines claims team won *Insurance Day's* Claims Team of the Year award where the team was described by *Insurance Day* as having “demonstrated an enviable track record in handling complex claims and a clear structure highlighting the relationship between underwriting and claims professionals”.

We have chosen to differentiate our approach to claims service from competitors. We do not have a separate claims department – claims managers and underwriters are integrated by product line. We pride ourselves on high quality, appropriately sized teams, with specialist skills. For example, in specialty lines many of our claims managers are sourced from partner and senior associate roles in top law firms. Most have over 10 years' experience and expertise in specialist areas, such as the insurance of architects and engineers, professional and general liability and employment practices.

In the property division, claims managers each have at least 14 years' experience. In the marine division, we employ a chief engineer of ships to evaluate the claims, finding alternative solutions to clients' exposures and our own.

We adopt a team based approach to claims, particularly in specialty lines where third party claims can generate significant complexity, and have developed analytical tools to support our efforts. We have also refined our approach in the selection of counsel and adjusters and are working closely with them to improve their practices. Last year, we decided to set up claims operations in the US to manage US professional and management liability claims emanating out of both Lloyd's business and BICI. This has enabled us to tap into new talent pools for claims managers, to develop closer relationships with clients, and to achieve better results on claims by supporting clients in person at mediations and arbitrations. As a consequence, we have continued to grow these operations.

We remain confident that the energy invested in this important area will continue to benefit both clients and shareholders. We believe that there is potential to add more value in this core area.

Informed underwriting decisions

Rating Environment

Cumulative rate changes since 2001

Overall the rates charged for business we renewed fell by 4% in 2007 (2006 an increase of 6%). This reduction should be viewed in the context of the historically high rates seen in the market at the end of 2006, as demonstrated by the chart above. Since 2001 rates across all our lines of business have increased by 49%.

In the property division, rates reduced by 2%. The reductions are a reflection of a relatively benign claims environment, particularly on the catastrophe exposed parts of this account. Similar rating pressure was also experienced by our reinsurance team in the later stages of 2007. Despite this, overall, this business saw rates increase by 5%. In 2006 the catastrophe parts of these insurance accounts saw significant rate increases as a result of the high level of claims following the devastating hurricane season in 2005.

Similarly the marine business has faced increasing competition across all lines, particularly in marine cargo and energy, where rates have fallen by 7% and 9% respectively. These are insurance risks we know well, and their pricing reflects this knowledge.

The largest line of business, specialty lines saw a 5% rate reduction. The overall specialty lines account has been trading at historically high levels for a number of years. Premiums achieved in 2007 were 58% higher than that for comparable risks in 2001. We are confident of the level of profitability in specialty lines supported by the pricing methods employed, risk management approaches adopted, and claims handling techniques applied.

Growth and balance

In 2007 gross premiums written increased by 5% to £780.5m. This is only partly explained by the increase in ownership of the managed premium capacity at Lloyd's, where we now own 81% (2006 78%). The main reason for the increase is the growth of our premiums written through our operations in the US.

The balance between our locally underwritten US business and our Lloyd's business (of which US risks are also a major component) is a key part of our strategy to manage the insurance cycle. By marketing insurance products through these separate, but complementary, distribution channels we can achieve a less volatile business mix than a "Lloyd's only" strategy.

Outlook

2008 will be a more challenging year for the insurance industry and will give us the opportunity to distinguish ourselves from the competition. We have built a platform that is differentiated from peers.

in the products we offer (we are the largest insurer of US professional liability business at Lloyd's), the way we access business through our US operations, and our approach to claims management

Over the past two years, strong market conditions and an absence of significant catastrophe losses have contributed to excellent results across the sector. The area of most competition is the large catastrophe-exposed syndicated property business where there are few barriers to entry. Although our income in this area is expected to fall in 2008, these lines will still form a significant part of our portfolio and represent one of our core competencies. We expect this decline to be counterbalanced by the growth of the US operations. We continue to constantly monitor the cycle across lines of business as "eternal vigilance" is the key to success and market conditions may alter rapidly.

The US strategy is to source business that is not subject to the same competitive pressures as the Lloyd's market business. The US operations are now well established and we expect this business to continue to grow substantially in 2008. We have set a target for premiums underwritten locally in the US of \$250m.

Our people are closely aligned to the interests of our shareholders. Management and staff own 15.6 million shares (4% of the company), and underwrite £10m of capacity through our Lloyd's syndicate.

Managing the insurance cycle remains our key objective, and with more than 21 years' experience of market cycles, the challenges are not unfamiliar to us. We look forward to 2008 based on our current market position, strategic focus and experienced team of underwriters, claims and support staff. No one likes to see a market soften, but we expect the cycle to create opportunities for established, well diversified, underwriting focused businesses like ours to create substantial long term profits.

Andrew Beazley
Chief executive

Performance by division

	Specialty Lines			Property			Reinsurance			Marine		
	Johnny Rowell			Jonathan Gray			Neil Maidment			Clive Washbourn		
	2007	2006		2007	2006		2007	2006		2007	2006	
	£m	£m		£m	£m		£m	£m		£m	£m	
Gross premiums written	394.9	361.0		188.0	187.8		57.8	58.4		139.8	137.9	
Net premiums written	326.2	267.3		157.4	149.9		49.6	40.5		119.0	116.6	
Net earned premiums	286.5	234.6		158.0	123.1		45.9	42.1		116.1	101.5	
Net investment income	43.2	35.9		8.6	4.2		7.1	4.1		6.0	4.1	
Other income	5.1	4.0		2.1	1.3		1.3	0.7		1.6	1.1	
Revenue	334.8	274.5		168.7	128.6		54.3	46.9		123.7	106.7	
Net insurance claims	169.4	146.3		76.6	66.3		16.2	13.7		45.2	44.4	
Acquisition and administrative expenses	108.5	78.1		70.0	52.7		14.0	14.7		41.9	34.0	
Foreign exchange (gain)/loss	(1.0)	2.2		(0.4)	1.2		(0.5)	0.4		(0.7)	0.9	
Expenses	276.9	226.6		146.2	120.2		29.7	28.8		86.4	79.3	
Results from operating activities	57.9	47.9		22.5	8.4		24.6	18.1		37.3	27.4	
Claims ratio	59%	62%		48%	54%		35%	33%		39%	44%	
Expense ratio	38%	33%		44%	43%		31%	35%		36%	34%	
Combined ratio	97%	95%		92%	97%		66%	68%		75%	78%	
Percentage of lead business	85%	81%		69%	69%		29%	32%		56%	51%	
Rate (decrease) / increase	(5%)	(1%)		(2%)	13%		5%	28%		(7%)	9%	

Specialty lines

Architects and engineers deliver complex projects with the utmost precision. With industry expertise and in-depth knowledge of the risks involved, our underwriters write insurance for 27 of the top 50 architects and engineers in the US

Profile

Led by Johnny Rowell since 1992, specialty lines includes professional and management liability insurance as well as political risks and contingency business. Together these lines comprise approximately half the group's premium income. In February 2008 the decision was taken to form a new division for our political risks and contingency group (PCG). Henceforth specialty lines will focus exclusively on professional and management liability lines. Adrian Lewers, who headed the PCG team within specialty lines, will lead the new division.

In many of the markets we serve, we are market leaders. We hold particularly strong positions in lawyers' professional liability and architects' and engineers' professional liability. The healthcare professional liability portfolio is also substantial, comprising some of the largest and best run hospitals in the United States, as well as long term care facilities and a wide range of miscellaneous healthcare risks such as blood and tissue banks. The technology, media and business services team provides errors and omissions cover for some of the fastest changing businesses on earth.

In management liability, the team's long term focus has been on non-financial institutions, which protected us from the effects of the US sub-prime mortgage crisis in 2007. We write both directors' and officers' (D&O) insurance and employment practices liability (EPL) insurance for a wide array of public, private and non-profit organisations.

Market overview

2007 was a testing but rewarding year for specialty lines. Competition intensified and rates edged down in many of the lines of business in which we specialise. But by employing the cycle management skills that we have honed through previous underwriting cycles, we continued to identify attractive business opportunities. Gross written premiums in 2007 rose 9% from the previous year to £394.9m, while rates across our business fell by approximately 5%.

The US is by far the world's largest market for professional and management liability insurance and we write US risks both at Lloyd's and from our offices around the US. However, the business is geographically diversified, with offices in Paris and Hong Kong as well as London. The locally underwritten US business, which grew strongly in 2007, comprises risks that are not normally shown to Lloyd's underwriters, either for regulatory reasons or because their smaller size makes them uneconomic to place in London.

The US operations made a significant contribution to overall specialty lines premiums, increasing from \$57.3m in 2006 to \$134.6m in 2007. The largest segment, architects' and engineers' professional liability business, wrote \$57m of premium income locally in the US. The growth of business in small scale and mid sized risks, made possible by our US operations, is an important element of our cycle management strategy.

Current performance

Softening markets test the mettle of underwriters who must balance the goal of writing profitable business with retaining clients attracted by lower priced competitors. High quality claims service and risk management expertise and specific industry sector knowledge play an important role in increasing client loyalty in such an environment. We continued to invest in both these areas in 2007.

We also began to promote skills and services directly to clients and prospective clients in 2007, running advertising for architects' and engineers' business in Engineering News-Record, a leading US publication. Brand-building in this way is only permissible in the admitted market due to regulatory restrictions on the promotion of surplus lines carriers.

Outlook

We expect competition will intensify further in 2008. Rates are declining from historically high levels but we expect to continue to identify profitable underwriting opportunities. We will manage costs carefully while continuing to invest in the skills and technologies that make it attractive for brokers and clients to do business with us and which enhance our risk selection capabilities.

Claims service will continue to be a major differentiator for us. In 2007 we won two major awards in the London market for our claims service and independent research indicates that brokers are increasingly appreciative of our claims service. A claim is a "moment of truth" in an insurance relationship that can have a major impact on future client loyalty. Within specialty lines, claims are frequently highly complex, meaning that good service is not easily replicable by competitors.

We plan to leverage other strengths that derive from our culture, corporate structure and history. As the US economy has slowed and the dollar has weakened, many US clients have sought to build their business internationally. As they do this, they are eager to partner with an insurer that has extensive experience of international risks.

Property

*The financial security provided by insurance is vital to the success of commerce in the modern world
Our property underwriters provide the leadership, expertise and capacity for the insurance
programmes of some of the world's most advanced and complex commercial developments*

Profile

Led by Jonathan Gray since 1992, the specialist underwriting teams in the property group lead the programmes of US Fortune 1000 clients and insure some of the world's largest construction projects. In addition to corporate clients and engineering the group insures homeowners, jewellers' risks and small commercial property clients. All told, the property group accounts for almost a quarter of the group's gross premiums written.

With expansion in the US, we are also able to write commercial property risks on both an admitted and non-admitted basis locally in the US, as well as US high value homeowners' risks on a non-admitted basis. The diverse nature of our clients, class types and distribution platforms enable us to provide the group with a well-balanced portfolio and positions us well to manage the cycle.

Market overview

Property rates entering 2007 were at a cyclical high, which inevitably, led to an increase in capacity in most markets around the world. Consequently, there was downward pressure on rates in most of the property classes, which has recently accelerated on the back of a benign hurricane season. One exception is the UK homeowners' market where rates have increased following the floods in the summer.

In the US more business is being retained in the domestic market as local carriers become more competitive in their pricing and terms and conditions.

Current performance

The amount of business led by the property group in 2007 remained broadly consistent with 2006 at 67% of premiums written (2006 70%).

Rates decreased by an average of 2% across all lines in the property group during the course of 2007 compared with 2006, with the engineering and commercial property accounts experiencing the largest decreases of 7% and 5% respectively. However, during the fourth quarter rates on US commercial property risks deteriorated further. This is still a key segment in our portfolio and we're confident of its continued profitability.

Our MGA had another successful year with premiums written increasing from \$10.3m in 2006 to \$19.6m in 2007, following the expansion of the product range to include small commercial business in addition to high value homeowners' insurance.

In addition to the MGA, our presence in the US expanded further through BICI which began underwriting mid-sized commercial risks in February. Our entry into this market received a very positive reaction and written premiums for the period through to the end of December total US\$6.5m.

The engineering team had another successful year in 2007. We opened a Singapore office in November 2006 and our local presence has been received extremely well with an excellent showing of business.

The UK homeowner market had a difficult year with the floods in June and July costing the insurance industry in excess of £3bn. Our loss from both events is estimated to be £7.5m, which is well within our realistic disaster planning scenarios. During the course of the year we made further progress at rolling out our revised rating tables, which have been compiled using the latest peril and lifestyle data available. Rate increases have averaged between 10% and 15%.

We have continued to build upon our reputation as property insurance specialists, and have been acknowledged as providing a fast and responsive underwriting and claims service. In the US we have been able to promote the ability of BICI to issue commercial property policies upon binding as a major differentiator from the domestic market.

Outlook

We continue to see the US as creating the greatest opportunities for our business, both in London and on the ground in the US. We have planned for further growth in our MGA operation, not only in the high value homeowners' business but also for small commercial risks where we are expanding our product range.

We expect the rating environment for large commercial risks to continue to be challenging in 2008 and see greater opportunities on small commercial risks where there is less competition. To enable us to access and service this business we have established a small business unit, which encompasses our underwriting in London and the MGA.

Further growth of business underwritten through BICI is anticipated as our reputation of being able to offer experienced underwriters, flexible terms and rapid policy delivery is demonstrated to the market. Additional opportunities will also arise with the AM Best rating being revised from A- to A in the fourth quarter of 2007.

Reinsurance

The calculation and trading of risk is a highly complex process fundamental to the insurance and reinsurance business. Experience and innovation, combined with a focus on long term relationships, have enabled our reinsurance team to work successfully with some of the world's most sophisticated insurance businesses for over 20 years

Profile

Led by Neil Maidment since 1996, the reinsurance division is a recognised leader providing capacity to a significant proportion of the world's leading general insurers, some of which have been clients for over 20 years. Specialising in property catastrophe, property risk excess, casualty catastrophe, aggregate excess of loss and pro-rata business, the team's main exposures outside the US are in the UK, Europe, Japan, Canada and Australasia. The reinsurance division represents 7% of the group's 2007 gross premiums written.

Market overview

After the significant hardening of the reinsurance market experienced in 2006, pricing continued to improve, albeit at a more moderate pace, during 2007. Further rate increases in the first quarter were to a degree balanced by moderate reductions during the mid-year renewals. Overall, we achieved an average rate increase on a risk adjusted basis of 5% across our portfolio. Rates in the property treaty market rose by 8.3% in the US while outside the US, rates fell by 0.9%.

Current performance

The favourable results for the reinsurance division during the current period have been driven by the very low claims activity experienced in both the 2006 and 2007 accident years. Although the 2007 hurricane season saw a number of storms including the very powerful category 5 hurricanes Dean and Felix, none made landfall in areas of high insurance density and so insured losses were modest. The other natural catastrophes which occurred during 2007, including the storms in Australia, the bush fires in California and the severe flooding in the UK, were not of sufficient scale to materially impact our reinsurance account. The largest single event was windstorm Kyrill which resulted in claims to the reinsurance division of £2 million out of a market loss of approximately £2.5 billion. During the course of the year we developed a new portfolio optimisation model which will assist our underwriters in deploying our capacity as efficiently as possible.

Outlook

Following a second consecutive quiet year for catastrophe losses in 2007, pricing in the reinsurance market eased during the first two months of 2008. Rates on average were down around 6% on a risk adjusted basis. In the US, the smaller, regional specific business generally experienced greater reductions than the larger, more complex risks. Outside the US, there was also negative pressure on pricing, particularly in the smaller non-life markets. In markets such as Germany which had suffered recent loss activity, pricing was more stable. Despite the pressure on pricing experienced which is likely to continue through the rest of the year, we believe the market still offers adequate margin for reinsurers. We aim therefore to continue to diversify our business with measured growth in our core markets, particularly in Europe.

Marine

Hull and machinery business has been a key driver for marine in 2007. The world freight market remains strong which, combined with high commodity prices and increasing capacity on larger container ships, has resulted in ever increasing ship values. Demand for new vessels following the upturn in trading economy has had a positive impact on the shipbuilding business which in turn is reflected in our builders' risks book.

Profile

Led by Clive Washbourn since 1998, the marine team are established leaders in all the main classes they write, which include marine hull, cargo, war and energy. We are able to attract the highest quality business through our leadership position and in-depth knowledge of the segment. As the portfolio has grown, we have continued to strengthen our underwriting and claims team.

Market overview

2007 was another good year for marine underwriting with adequate rating coupled with low loss frequency to produce excellent results. As almost all marine sectors are producing good profits it was not surprising that rates began to reduce more quickly as the year progressed. This was especially so in the energy and war sectors where very large profits will likely be recorded by most marine insurers. There have been no major capacity withdrawals from either the Lloyd's or international marine markets and therefore rate reductions will continue.

Current performance

2007 was a rewarding year for our marine division with record levels of gross premiums at £139.8m. The marine sector has continued to benefit from both the strength of the global economy and high commodity prices. The greater the values insured the greater the premium we earn.

Our hull account has continued to grow on the back of a strong freight market that has resulted in increasing ship values and full order books for almost every shipyard in the world. We have increased our written line to take advantage of this buoyant shipping market.

The energy market is still in a growth phase currently with insured values trending upwards and investment at historically high levels in many areas. For our energy account low, loss frequency and high rating levels have combined to produce strong returns. We anticipate increased competition during 2008 although we believe that the energy class will continue to offer the prospect of good profits. While new capacity has entered the class in recent months the energy insurance market remains relatively small and we consider that we are very well positioned to take advantage of any upturn.

Our war account, the insurance of ships and aeroplanes against terrorist and war risks, continues to perform well because of negligible claims activity. Base rates are down but as a market leader we are in a strong strategic position to take advantage of rate rises in the event of a catastrophic loss.

The Lloyd's cargo account has had a difficult year with above normal attritional losses and decreasing rates. This account though is still expected to produce profit.

The UK regional marine account continues its steady growth in a highly competitive market. All the infrastructure is now in place to continue to grow this portfolio profitably.

The marine liability account doubled this year, through the addition of a large and well respected coverholder account. This insures the liability for hirers of vessels. Our premium rates in the marine liability portfolio have dropped only 1.4% for the year and still remain at a level where projected profitability remains achievable.

We have not renewed our participation in a satellite consortium that we have underwritten for four years, as we believe rates are now too low. We will re-enter this class when we can see an opportunity to make a profit.

Outlook

We look forward to 2008 as a year when we can use the team's underwriting skills to outperform in a more challenging rating environment. We continue to be pleased with the quality of the business and expect profitability and the long term return to shareholders to be met.

As a team we believe the market is always good. If you are adept at navigating the softer market there are always opportunities to seize profit. Where we can continue to grow the portfolio profitably we will.

FINANCIAL REVIEW

	2007 £m	2006 £m	Movement %
Gross premiums written	780.5	745.1	5
Net premiums written	652.2	574.3	14
Net earned premiums	617.2	509.6	21
Net investment income	64.9	48.3	34
Other income	10.1	7.1	42
Revenue	692.2	565.0	23
Net insurance claims	307.4	270.7	14
Acquisition and administrative expenses	237.4	179.6	32
Foreign exchange (gain)/ loss	(3.1)	22.3	-
Expenses	541.7	472.6	15
Finance costs	12.0	5.6	114
Profit before tax	138.5	86.8	60
Claims ratio	50%	53%	-
Expense ratio	38%	35%	-
Combined ratio	88%	88%	-
Rate (reduction) / increase	(4%)	6%	-
Investment return	4.9%	4.9%	-

The group has reported record profits of £138.5m, a 60% increase on 2006. This is achieved despite increasing competition in underwriting markets and volatility in investment returns. Highlights include:

- Gross premiums increased by 5%
- Reinsurance purchased by the group reduced from 22.9% of premiums written to 16.4% in 2007
- Claims releases of £64.1m (2006: £31.0m), of which £15.6m related to releases from the catastrophe exposed accounts from the 2006 underwriting year
- Investment return of 4.9%, generating income of £64.9m

Gross premiums written

During 2007, gross premiums written rose by 5% to £780.5m. This growth was achieved despite the 4% devaluation of the US dollar in 2007 and 4% reduction in insurance renewal rates. Around 70% of our business is written in US dollars – hence the importance of this exchange rate. The main reasons for the increase in premiums were the growth in the US operations – which wrote \$175.2m of premiums in 2007 (2006: \$68.9m), together with the increase in the group's ownership of the combined syndicates which rose to 81% in 2007 from 78% in 2006.

As highlighted in Andrew Beazley's section, the business is well diversified – both by class of business and geographical location. As well as protecting us from exceptional events, it also enables us to hold lower levels of capital to support the business.

We continue to write 51% (2006: 48%) of gross premiums through our largest team – specialty lines. The charts below show the composition of our portfolio in 2007, across types of insurance, settlement terms, classes of business and geographical regions.

Reinsurance

Reinsurance is purchased for a number of reasons

- To minimise the impact of catastrophes such as hurricanes,
- To provide lead line capabilities to underwriters, and
- As a way of managing capital

In 2007, reinsurance costs decreased by 24.9% to £128.3m. As a percentage of the gross premiums written, it fell from 22.9% to 16.4% during the year. This was largely the result of two decisions the group made around its appetite to retain risks. Firstly, in the specialty lines business we rebalanced the proportional treaty arrangements by taking on a larger share of the risks. Secondly, in the treaty reinsurance business we re-underwrote the account in 2007 to be less reliant on the third party reinsurance market.

Combined ratio

The group's combined ratio remained at 88% in 2007. Within this the claims ratio reduced from 53% to 50%, while the expenses ratio increased from 35% to 38% in 2007.

Claims

The claims ratio decreased from 53% to 50% in 2007. This arose due to two principal factors:

- Releases of claims reserves held in the short tail accounts, particularly against catastrophe type risks, following benign claims activity mainly from the 2006 underwriting year, and
- Releases from our specialty lines account reduced the claims ratio by 5.4% (2006: 3.5%)

As the business has matured over the past five years, we have gradually been able to increase the levels of reserve releases across all classes of business. This is illustrated in the following chart which highlights the steady increases in release together with the benefit attributed to the claims ratio in each year.

We found 2007 to be a quiet year in terms of claims activity. There were a small number of events which caused modest claims in the early to mid-part of 2007. Windstorm Kyrill caused losses across a wide area in Europe in January. The UK floods in the summer, firstly in Yorkshire and parts of Northern England and then the west of England, caused losses within the UK homeowners' insurance account. All these events were contained within the reserves established for anticipated losses.

Claims arising from sub-prime exposures

Against the backdrop of increased market commentary about sub-prime mortgages and related issues, we set up an internal working party during 2007 tasked with monitoring the risks to and opportunities for Beazley. As was demonstrated in the late 1990s, Beazley has limited appetite for professional liability risks within the financial institution sector. This has remained the case and whilst the number of sub-prime related cases (as reported recently by Advisen) is approaching 200, the number of claims to Beazley arising out of those cases remains in single figures. As such, we currently expect that our exposure will remain within our reserves and we don't anticipate a change to our reserving philosophy. Our underwriters and claims managers are skilled at measuring, predicting, diversifying and mitigating the risks to Beazley.

2006 catastrophe reserves

We were able to release £15.6m in 2007 in respect of claims reserves held at the end of 2006 for potential catastrophes. We were unable to release these reserves at the end of 2006 because at that stage we were still on risk for a number of policies we covered. These releases were in the reinsurance (£5.2m), property (£5.3m), and marine energy (£5.1m) accounts.

Total releases from the short tail accounts, where claims are settled within two years of the policy period expiring, totalled £30.7m. The table on page 104 sets out in which accounts these claims releases originated, but as you will notice, all lines of business reported favourable adjustments. The reserving approach in these accounts remains consistent with prior years. We take a conservative view of the unexpired policies within portfolios, only making releases once a substantial part of the account has expired.

Specialty lines claims reserve releases

The specialty lines claims reserves continued to develop well in 2007 enabling us to release a further £33.4m during the year (2006: £18.0m). We have consistently adopted a cautious approach towards reserving in this business. The nature of these claims is that for the majority of classes of business the corridor of uncertainty surrounding potential losses is wide in the first three years of development following the premium being written. As we gain more certainty in years four and five, we have a better view as to where claims are likely to settle and we can adjust reserves accordingly.

Across all underwriting years the ultimate claims reserves we were holding have reduced during 2007, enabling these releases. This can be seen in the loss development tables within the notes to the accounts (page 101). These show loss ratios at various points in time – after 1 year, after 2 years, after 3 years, at the end of 2006, and current. These tables also give the size of release made by underwriting year. The majority of the releases come from the earlier years – £25.5m relating to the 2004 underwriting year and prior.

Expenses

The expenses ratio has been restated in 2007, (and for 2006 comparatives) so that it includes all costs. We believe that by including all costs within the ratio, this is a fairer representation.

The expense ratio has increased by 3% to 38% in 2007. This was largely due to the growth in the US operation and increased profit related variable compensation. In the US we have increased the number of people employed from 111 to 153. As the business is in a start-up phase where costs are currently growing faster than premiums being written, this has an adverse impact on our expenses ratio. The first few years of building the US operation have involved a number of one off costs such as information technology (IT) development on underwriting systems and facilities costs in establishing new offices.

It is likely that certain of these costs, such as IT, will continue into 2008 – as we search out more efficient longer term IT platforms to support the business. It was always known that building offices on the ground in the US would be a more expensive approach than running a pure Lloyd's operation. The reward for this spend will come from the quality and type of business we are able to write (i.e. business that would not come to Lloyd's). These benefits won't be seen initially, however, but rather are investments for the future.

Employee numbers

In 2007 we continued to build the business through growth in talent, particularly in the US. By the end of 2007 we had 153 people in the US (2006: 111), of which 53 were underwriters and a further 18 were claims managers. In the UK the headcount level stabilised in line with the premiums being written. The largest growth areas were in specialty lines in the US, and support staff in the US – both in response to the increased premiums and volumes being written. The claims team within specialty lines also increased from 25 to 35 people in line with our service strategy around claims highlighted in Andrew Beazley's section in this report.

Employee numbers	2007	2006
Specialty lines	205	172
Property	71	55
Reinsurance	10	9
Marine	25	28

Finance (including actuarial, compliance and internal audit)	63	55
IT	52	43
Ceded reinsurance	13	15
Talent management	12	11
General management and other support	39	31
Total	490	419
UK	326	298
US	153	111
Other (Hong Kong, Singapore, and Paris)	11	10
	490	419

Investment performance

2007 was a year of exceptional volatility in financial markets, marked by a collapse of confidence in credit markets during the second half of the year. Despite this investment income grew to £64.9m (2006: £48.3m), providing a return of 4.9% (2006: 4.9%).

During the first half of 2007, strong economic growth globally, together with rising commodity prices, continued to provide upward pressure on interest rates as inflation concerns mounted. However, the effect of monetary tightening and the escalating crisis stemming from increasing defaults in the sub-prime sector in the US caused a collapse in confidence in financial assets during the second half, as multi-billion dollar write-downs were announced by leading banks and investment houses. This particularly exhibited itself in the sharp increase in money market spreads over official rates as money market funding dried up. Central banks reacted to the increasing strains in the financial system by reducing rates and injecting funds, but this did not prevent credit spreads, even of high quality assets, from widening sharply in the second half. However, for the group, the high quality of our fixed income portfolios largely insulated our returns. At 31 December 2007 the weighted average duration of our bond and cash portfolio was one year.

The group's investments in alternative assets and equities added to the investment returns. Hedge funds achieved a return of 7.5%. Meanwhile, the group's equity investments achieved a return of 7.7%.

The US fixed income portfolios had a limited exposure to US sub-prime assets throughout 2007. These are all AAA-rated asset backed securities and comprised around 1% of group assets as of 31 December 2007. The group does not permit investment in collateralised debt obligations (CDOs). All these securities have been consistently marked-to-market throughout the year.

We remain comfortable with the overall position of the group's investment portfolios, and anticipate that during 2008 some of the spread widening that has dampened fixed income returns in 2007 may reverse as the current credit concerns are worked through. We continue to look for opportunities to enhance returns while limiting volatility of the overall portfolio, both through investment in diverse asset classes and by utilising managers with different skill sets. To this end we have appointed a new manager, BlackRock Investment Management, to manage a portion of the sterling fixed income assets from January 2008.

For regulatory and legal reasons, certain trust funds and deposits are required to be managed centrally by Lloyd's on behalf of the syndicates. These funds are invested in high-grade, fixed income securities and their performance is detailed separately in the table below.

The group maintains funds in cash for various operational purposes. The majority of these cash balances are invested in money market funds.

The table below highlights the returns received by currency and by investment type.

	2007 Average £m	2007 Annualised return %	2006 Average £m	2006 Annualised return %
Fixed interest securities				
UK£	550.4	4.7	383.0	4.5
US \$	523.3	5.0	425.7	4.4
Lloyd's managed and other	67.2	3.7	56.6	3.9
Hedge funds	60.7	7.5	45.3	11.1
Equities	47.7	7.7	22.5	11.9
Cash and money market funds	79.9	2.8	57.5	3.7
TOTAL	1,329.2	4.9	990.6	4.9

Investment income has also increased as a result of larger cash and investment balances being managed by the group. The group's cash and investment balance grew during 2007 mainly due to additional underwriting of syndicate 2623 in 2007 and a benign 2 years for major claims.

The following chart highlights the growth in investment balances over the past 5 years.

Foreign exchange differences arising on non-monetary items

In 2007 the impact of the foreign exchange adjustment on non-monetary items is a credit to our income statement of £8.2m (2006: a charge of £9.4m). Non-monetary items include unearned premium reserves, reinsurers' share of unearned premium reserves, and deferred acquisition costs. Under International Financial Reporting Standards (IFRS), these balances are carried at historic exchange rates, while monetary items are translated at closing rates. This imbalance creates volatility in our accounts which cannot be hedged as the mismatch is not monetary in nature.

In 2007, the historic US dollar rates applicable to the non-monetary balances are weaker relative to sterling than the closing dollar exchange rate applied. This has a positive effect on net assets as the non-monetary net liability is valued lower than when using the closing rate.

BALANCE SHEET MANAGEMENT

Summary balance sheet	2007 £m	2006 £m	Movement %
Intangible assets	28.7	21.9	31
Investments and cash	1,490.6	1,167.8	28
Insurance receivables	199.9	244.0	(18)
Reinsurance assets	353.3	353.1	-
Other assets	108.2	97.4	11
Total assets	2,180.7	1,884.2	16
Insurance liabilities	1,471.9	1,225.6	20
Borrowings	156.7	154.9	1
Other liabilities	153.5	184.2	(17)
Total liabilities	1,782.1	1,564.7	14
Net assets	398.6	319.5	25
Net assets per share	112.1p	89.8p	25

Intangible assets

Intangible assets consist of goodwill on acquisitions (£15.5m), purchased capacity in the combined syndicate (£4.4m), licences (£4.6m) and capitalised expenditure on IT projects (£8.0m). The total balance on intangibles increased by £6.8m in 2007 to £28.7m as a result of both the acquisition of Sapphire Blue, a US based MGA that writes professional and general liability insurance and the capitalisation of additional IT expenditure in 2007. The IT capitalisation relates mainly to building the large commercial property underwriting platform in the US, ongoing development of the specialty lines underwriting platform in the US, and development of systems to better manage claims processes. Our accounting policy is to depreciate these items over their useful economic life (3 years).

Investments and cash

The group's portfolio remains mainly invested in high quality, short duration bonds. We invest 10.6% (2006 11.8%) in alternative investments and equities to enhance returns and further diversify risks associated with investing solely in bonds. A breakdown of the growth in the portfolio, by asset type is set out below.

The group's strategy is to use a number of specialists to manage the portfolios in order to diversify manager risk and to give us access to different investment styles and skill sets.

Manager	Investment Type	2007 £m	2007 % of total
AllianceBernstein	US \$, £, Euro €, CAD \$ Fixed income, equity	917.5	61.5
Conning Asset Management	US fixed income	179.9	12.0
Wellington Management	US fixed income	106.8	7.2
Union Bancaire Privée	Alternative investments including hedge funds	157.9	10.6
Lloyd's Corporation	Fixed income	73.0	4.9
Scottish Widows Investment Partnership	Money market funds	20.3	1.4
AIM Global	Money market funds	7.1	0.5
Bank of America	Money market funds	16.2	1.1
Other cash balances	Current account and deposits	11.9	0.8
TOTAL		1,490.6	

The performance of the managers and the structure of the investment portfolio is monitored by the chief investment officer who reports to the investment committee, which holds delegated responsibility from the board for all investment matters

Insurance receivables

Insurance receivables represent broker balances receivable in respect of premiums we have written. During 2007, broker balances decreased by 15% to £199.9m. We continue to outsource the collection of our premium broker balances to JMD Specialist Insurance Services Limited, which operates within the Lloyd's market as specialist credit controllers.

Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims (£280.4m), and the unearned premiums reserve on reinsurance (£72.9m).

Of the recoveries from our reinsurers, £89.1m is in respect of claims paid or reported to us, and a further £191.3m is an actuarial estimate of the recoveries on claims not yet reported. These assets are managed through

- Minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P when initially selected). These criteria vary by type of business (short vs. medium tail). The chart below shows the profile (based on S&P rating) of these assets at the end of 2006,
- Timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team, and
- Regular monitoring of outstanding debtor position by our reinsurance security committee.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2007 we had provided £5.7m (2006: £4.8m) in respect of reinsurance recoveries.

Other assets

These are separately analysed in the notes to the accounts. The largest items included in the balance are

- Deferred acquisition costs (£82.0m)
- Deferred tax assets, either against UK or US taxes paid (£4.5m), and
- Profit commissions receivable from syndicate 623 (£7.6m),

Insurance liabilities

Insurance liabilities of £1,471.9m consist of two main elements, unearned premiums reserve ("UPR"), and gross insurance claims.

- Our unearned premiums reserve (UPR) has increased by 7% in 2007 to £384.3m, mainly due to increased premiums written. The bulk of the UPR relates to the current year. Current indicators are that this is profitable and will earn through to the income statement in 2008.
- Gross insurance claims are made up of claims which have been notified to us but not yet paid and an estimate of incurred but not yet reported claims (IBNR). These are estimated by both the underwriter and the syndicate actuary through the quarterly peer review process, a description of which is included in note 23. Gross insurance claims increased by 26% in 2007 to £1,087.6m, mainly due to the increase in business written.

Borrowings

The group utilises two long term debt facilities

- In 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that is payable in 2026 and callable in 2016. The initial interest rate payable is 7.25%, and

- An US\$18m subordinated debt facility raised in 2004. This loan is also unsecured and interest is payable at the US interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and callable in 2009.

At the time of the £150m bond issue we entered into a derivative transaction, whereby we matched our investment and currency risk by swapping the sterling fixed rate loan into the equivalent of

- £108m of floating rate sterling loans, and
- US\$80m of floating rate US dollar loans

These items have been accounted for using hedge accounting for both the floating rate and currency elements of the transaction.

In addition to these borrowings we operate a £50m syndicated short-term banking facility, managed through Lloyds TSB. The facility was successfully renegotiated for two years in November 2007.

Currency profit hedging

We minimise currency exposure to the US dollar, which represents the group's largest currency risk, by estimating US dollar profits each year and selling a proportion each month. By the end of each year we aim for US dollar exposure to be minimal. At the end of 2007 we had £67.8m of US dollar net assets, which mainly relates to our investment in the US. In 2007, the group sold US\$332m at an average exchange rate of 2.00 (2006: 1.88). We also sell year-end unhedged profits for the second largest currency exposure, Euros, once a year.

CAPITAL POSITION

The group has several requirements for capital

- 1 To support underwriting at Lloyd's through syndicate 2623 This is based on the group's individual capital assessment This may be provided in the form of either the group's cash and investments or debt facilities,
- 2 To support underwriting in Beazley Insurance Company, Inc in the US, and
- 3 To make small acquisitions, such as the Sapphire Blue acquisition in 2007, of insurance companies or MGA's whose strategic goals are aligned with our own

Our funding comes from a variety of sources

- 1 £398.6 comes from shareholders funds (i.e. net assets) Of this balance, £113.3m is unavailable to the group because it relates to intangible assets, fixed assets or undistributable syndicate profits
- 2 £150m was raised in 2006 through a tier 2 subordinated debt issue,
- 3 An \$18m subordinated long term debt with a maturity in 2034, and
- 4 An undrawn banking facility of £50m provided by a syndicate of banks led by Lloyds TSB

In November 2007 we announced a rolling on-market share buyback programme to repurchase up to 5% of the company's issued share capital, representing approximately £30m By the end of 2007, £5.1m (representing 0.9% of the company's shares) had been repurchased The special dividend of 4.0p per share will distribute an additional £14.5m

	2007 £m	2006 £m
Sources of funds		
Shareholders funds	398.6	319.5
Tier 2 subordinated debt	150.0	150.0
Long term subordinated debt (US\$18m)	9.0	9.2
	557.6	478.7
Uses of funds		
Lloyd's underwriting	306.2	292.0
Capital for US insurance company	55.5	30.6
	361.7	322.6
Surplus	195.9	156.1
Unavailable surplus	(113.3)	(81.0)
Available surplus	82.6	75.1

Individual capital assessment

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

In order to determine the ICA, we made significant investment in both models and process

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

The ICA has increased from £292m to £306m which reflects changes in the amount and mix of business in the plan, the impact of falling rates, and the positive development of claims reserves from prior years

Andrew Horton

Finance director

INVESTOR RELATIONS

We place great importance on communication with shareholders. The full report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). Alternatively, shareholders can elect to receive a mailed copy of the accounts 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, 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 them 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.

There are currently nine analysts publishing research notes on the group. In addition to research coverage from Numis, the company's corporate broker, coverage is provided by ABN Amro, Fox Pitt Kelton, Credit Suisse, JP Morgan, Keefe Bruyette & Woods, KBC Peel Hunt, Clear Capital and UBS.

FINANCIAL CALENDAR

21 April 2008	Annual general meeting
9 May 2008	Final dividend payment
25 July 2008	Interim announcement
25 July 2008	Interim dividend announcement

RISK MANAGEMENT

Our business is to underwrite a diverse range of specialist classes of insurance. This means that effective risk management is integral to everything we do. The group's approach to risk management focuses upon

- *Limits and monitoring processes* – all risks in our business are clearly understood, measured and controlled
- *Organisational structure and accountabilities* – all risks in our business are clearly owned by individuals who are responsible for managing risk
- *Constant evaluation of the risk versus reward equation for making decisions* – this ensures every decision we take is based upon its contribution to our overall performance

Strong risk management discipline is and always has been part of what we do. Nevertheless, our risk management practices are continuously evolving to meet new challenges as the business grows. Some of our areas for focus in 2008 are outlined in more detail below.

Managing the Cycle

One of the key challenges for many insurers in 2008 will be to manage the insurance cycle. This is the risk of softening market conditions causing premium rates to fall and/or claims frequency and values to increase.

Our tried and tested approach to cycle management is demonstrated through our strong and consistent trading record. Accessing this experience will be a key differentiator for our business as we can call upon our experience and leading market position to

- *Maintain expertise* – deliberately attracting and retaining top talent across our business to outperform on underwriting, claims management, marketing, distribution and risk management
- *Unlock value through claims* – our focus upon superior claims management means we can attract and retain the best business and effectively respond to new claims trends in our underwriting
- *Create diversity* – deliberately reducing our reliance on and impact of any one portfolio by spreading our business across products, geography and size
- *Focus on long term objectives* – by being clear about where we want to be for all our classes of business at the top of the next cycle we can ensure our plans, tactics and infrastructure are ready to meet these goals
- *Consolidate barriers to entry* – we specialise in classes of business which have barriers to entry. This allows us to build upon well-established infrastructure, service, stability and relationship management in our core markets so that we continue to attract the best business available
- *Apply technical skills* – by supporting our underwriters and claims managers with the tools they need to exercise superior skills in pricing, market segmentation, risk selection, data analysis, reinsurance buying and management control

Underwriting Risk

Our business is founded upon a complementary blend of catastrophe and non-catastrophe insurance portfolios. To manage these exposures we model and stress test our risks to understand the expected financial impact of extreme events which result in policyholder claims.

For classes of business where accumulations of losses can result from a single event, such as property, marine energy, terrorism and war, we set insurance risk appetite limits. These risk tolerances are based upon the extremity of potential events, the impact they could have upon our forecast earnings and capital, and the potential opportunities that will exist to write high margin business afterwards.

Our largest risk appetite relates to a modelled probabilistic 1 in 250 year US natural catastrophe event, such as wind storm or earthquake, and in 2008 we will manage to an amount of \$340m after reinsurance.

We also have market leading portfolios in areas such as professional indemnity and directors' and officers' liability insurance. For these classes the primary risk is charging premium rates that are too low as a result of external factors such as new laws, social trends or systemic events or regulations which subsequently lead to larger than expected claims. They are other types of risk which continue to benefit our business by providing healthy diversification from the typical natural catastrophe exposures of many London Market insurers, such as Florida wind or California earthquake.

Investment Risk

We adopt a conservative approach to investment risk arising from uncertain movements in financial markets, interest rates and foreign exchange rates.

Through setting comprehensive investment guidelines, regularly monitoring the performance of the underlying investment managers and stress testing our investment portfolio we can assess if our overall risk and return targets

are being met and protect our investments from adverse financial markets. We therefore constantly monitor our investment exposures in areas such as asset duration, type, maturity profile, rating, economic sector, individual counterparty and issuer.

To avoid very volatile returns from changes to interest rates, our investment approach specifically does not require the asset portfolios to match the duration of our liabilities. Although this creates some residual economic risk, we closely monitor the asset-liability duration mismatch as part of our regular risk assessment, and to manage income our investment managers are tasked with delivering returns in excess of LIBOR from a balanced portfolio with low risk of loss.

To minimise the risk of an event impacting both our claims liabilities and our investment portfolios, we carefully limit investments in areas which correlate with our insurance portfolios. For example, we avoid emerging market investments which could potentially clash with our political risk exposures.

Credit risk

As market conditions soften, this will challenge the financial stability of some firms. Therefore we thoroughly vet all of our counterparties, such as reinsurers and brokers, before trading with them. We also carefully monitor their performance regularly, which has given us a good track record in the Lloyd's market for avoiding reinsurer bad debts.

Emerging risk identification

We employ specialist teams to support our underwriters in identifying external trends and issues. Using this research improves our underwriting risk selection, allows us to avoid markets in decline and improves our claims management capabilities. For example, we closely monitor developments in US tort reform to determine the likely impact on claim frequency and severity for classes of business such as healthcare, allowing us to tailor our underwriting approach at the earliest opportunity.

Assessing risk versus reward

By allocating capital to each investment and underwriting segment and regularly reviewing returns, we manage our business in a way that supports our core markets and targets growth on the best opportunities as they arise.

To optimise use of the group's capacity for risk, allocation between classes of business and types of risk is reviewed regularly through stress and scenario analysis. Stochastic modelling techniques are also used to rigorously assess the capital requirements of our business plans through the ICA process.

Risk assurance framework

Our risk assurance framework encourages all our business areas to focus upon achieving the group's strategic objectives. The board of directors has ultimate responsibility for defining the group's risk tolerance, with key individuals and committees made accountable for day-to-day management of risks and controls which arise from their activity.

In 2007 the effectiveness of our risk management was formally acknowledged by Standard and Poor's who have categorised it as 'Strong', which ranks our practices in the top quartile of companies rated by them,

Risk management team

The purpose of our risk management team is to facilitate and strengthen effective risk management in all of our activities. Their primary goal is to help the business achieve a consistent approach to the identification, measurement and mitigation of risk across the group. Active participation of this team in all board meetings and senior management committees ensures that risks are monitored and managed as they arise.

This team uses a leading edge system called the BeazleyRiskMatrix to support its work. This online risk management tool allows the emerging risk profile of the group to be captured and analysed in real time using information input directly by risk and control owners across our worldwide locations.

Internal audit and compliance

Our internal audit and compliance teams reinforce our comprehensive risk management strategies. They work closely with the risk management team and the business to co-ordinate activity, avoid duplication and deliver a targeted risk-based approach.

Key risks at a glance

The group has identified six primary categories of risk that arise from its activities

RISK	Risk type	Sources	Importance to group capital requirements
	Insurance	Underwriting Reinsurance Claims management Reserving & ultimate reserves	Dominant
	Credit	Reinsurers Brokers & intermediaries Investments	Material
	Liquidity	Insurance & non-insurance cash calls	Low
	Market	Foreign exchange Interest rates Investment prices	Material
	Operational	People Process and system Regulation Service provider Business continuity Information security Financial reporting Data integrity Legal	Moderate
	Group	Strategic Reputation Management stretch	Moderate

Note 2 on pages 72 to 81 provides further detail about the group's definition, appetite and controls for our key risks

CORPORATE AND SOCIAL RESPONSIBILITY

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 in our day-to-day business and put policies and procedures in place that reflect our commitment. We also recognise the regulatory and reputational risks associated with ethical practice and adhere closely to the Association of British Insurers (ABI) guidelines published in October 2001 on the disclosure of listed companies' social responsibility policies and endeavours. In 2007 we also signed up to the Lloyd's Climate Wise principles.

Intrinsic to our culture is an ethical approach to business conducted by and towards all our stakeholders, including management, staff, clients, suppliers and shareholders. The values that form the essence of our brand and our working culture are professionalism, integrity, effectiveness and dynamism. We have appointed Nicholas Furlonge as the group sponsor of our corporate and social responsibility programme.

Corporate responsibility

We are an equal opportunities employer and make it our policy to offer equal treatment to employees and prospective employees, ensuring that all are treated fairly and with dignity and respect. We absolutely do not permit unlawful discrimination of any kind against any person, to include on the grounds of gender, race, nationality or ethnic origin, age, disability, religious beliefs, sexuality, marital status, working patterns or pregnancy.

We are committed to taking positive action to ensure that all employees, whether full-time or part-time, receive equality of opportunity in recruitment, training, development, promotion and remuneration.

We strive to ensure the health, safety and welfare of our employees and anyone else who may be affected by our operations. Employees are expected to take reasonable care for 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 & safety and additional training in ergonomics and fire safety awareness is provided to all employees. All health and safety matters are communicated via notice boards, email memos, the intranet and via safety representatives.

We believe that the knowledge and skills of our employees are a key element of organisational success and therefore invest in training and development. We ensure that this is accessible by everyone and recognised as a shared responsibility between individual employees and the organisation.

Employees are kept informed of developments in business through our internal communications including, formal company-wide briefings that occur twice a month, team meetings and an information-rich intranet.

We are proud of our working culture that ensures that we achieve our aim to attract and retain talented staff in competitive markets and supports them as they strive to perform to an excellent standard.

Social responsibility

We encourage employee involvement in a range of community programmes. Nicholas Furlonge is the chairman of the Lloyd's Community Programme Management Board in London, and encourages staff to involve themselves in helping pupils in schools in the Tower Hamlets area, one of the most deprived areas in the country. The largest programme is "Reading Partners", where members of staff volunteer their lunch hour to sit with children and help them with their literacy. There are currently 14 volunteers on this scheme and a further 7 on the "Maths Partners" programme which we also support. In addition, one employee participated in the police mentoring programme, where a senior business person is paired with a senior police officer in one of three of East London's most challenging boroughs in order to help them develop their management skills.

In 2007, we sent volunteers to a school to help students understand the process of getting paid. We also participated in cricket coaching and are looking at some of our business teams participating in Lloyd's community programme days in 2008.

The group made charitable donations during the year ended 31 December 2007 of £59,232 (2006 £25,436). The group's charity budget is managed by a charity committee chaired by Nicholas Furlonge, and consideration is given to a wide range of activities, particularly where members of staff are engaged in fund raising activities. For example, these activities raised over £7,000 competing in a dragon boat race and over £2,000 in a white-water rafting competition. Also, our annual Christmas card is distributed electronically to over 20,000 key clients and contacts, giving them the opportunity to indicate the charity that they wish us to support.

In October 2006 we introduced a payroll-giving scheme in the UK in association with the Charities Aid Foundation. By the end of December 2007, 11% of staff had joined the scheme, donating £13,791 annually to 31 different charities.

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

Environmental responsibility

We are committed to achieving best practice in all the areas of the business where there may be an impact on the environment. From our head office in Plantation Place in London we encourage environmentally aware behaviour including:

- A policy for minimising waste by scanning risks and claims which enables employees worldwide to view documents electronically rather than on paper
- Extensive video conferencing is available at the London offices and some US offices to reduce requirements for business travel and air travel
- Recycling facilities for plastics, glass, paper, cardboard and used toner cartridges are located throughout the building
- Glasses are used within the offices and refillable glass bottles are used for the meeting rooms lieu of disposable ones
- Recycling bins for old mobile telephones for charity
- Multi-functional scanner, printing, copying and faxing facilities exist and double-sided printing is set as a default on all copiers and printers
- In the London office, motion detectors are fitted to lighting systems to ensure electricity usage is kept to a minimum and lighting levels have been reduced by 25%
- The landlord for the London office procures the electricity from a green supplier
- The London offices have changed the paper supplies to 100% recycled
- We also actively encourage the use of public transport and provide ample cycle racks, shower facilities and locker storage for those employees who cycle into work and we provide a cycle to work scheme

We are also currently undertaking an environmental impact assessment of all our UK operations, including an assessment of its carbon emissions.

BOARD OF DIRECTORS

Executive directors

Andrew Beazley (aged 54) is the chief executive of the company. Andrew is a co-founder of Beazley Furlonge and the active underwriter for the managed syndicates 2623 and 623. He has 32 years' experience at Lloyd's.

Andrew Horton (aged 45) is the group finance director and joined the board in June 2003. Andrew was previously UK chief financial officer at ING and, prior to January 2001, was deputy global chief financial officer and global head of finance for the equity markets division of ING Barings, having held various financial positions with ING Barings since January 1997. He qualified as a chartered accountant with Coopers and Lybrand in 1987.

Nicholas Furlonge (aged 57) is responsible for the risk management of the Beazley group. Nicholas is a co-founder of Beazley Furlonge, and has 35 years experience at Lloyd's and has recently been appointed as a non-executive director of the Lloyd's Franchise Board. He is also Chairman of the Lloyd's Community Programme Management Board and a director of the LMA. He is also responsible for brand and communications and the ceded reinsurance department.

Jonathan Gray (aged 54) is head of the group's property division. Jonathan has 33 years of experience at Lloyd's, joining Beazley in 1992. He is an active underwriter in his area of expertise, open market commercial property risks.

Neil Maidment (aged 45) is head of the group's reinsurance division. Neil has 23 years of Lloyd's experience. He joined Beazley in 1990 and remains an active underwriter on the account.

Johnny Rowell (aged 46) is head of the group's specialty lines division and chairman of the group underwriting committee. Johnny has 22 years' experience, joining the market as a broker. He joined Beazley in 1992 and continues as an active underwriter with a principal focus on professional liability.

Clive Washbourn (aged 47) is the head of the group's marine division. Clive has 24 years experience in the marine insurance industry and actively underwrites marine hull, marine liability and marine war risks. He is a member of the LMA Marine Committee, the LMA Underwriting & the Claims Committee and is the chairman of the Joint War Committee.

Non-executive directors

Jonathan Agnew (aged 66) is the chairman of the company. Jonathan was formerly a managing director of Morgan Stanley and subsequently chief executive of Kleinwort Benson (now Dresdner Kleinwort). He has been chairman of Limit plc, Gerrard Group plc, and Nationwide Building Society. He is currently chairman of Ashmore Global Opportunities Limited, The Cayenne Trust plc and LMS Capital plc and senior independent director of Rightmove plc. He was a member of the Council of Lloyd's from 1995 to 1998.

Dudley Fishburn (aged 61) is chairman of HFC Bank Limited and a non-executive director of HSBC Bank plc. He is a non-executive director of Altria Inc. in the US.

Andy Pomfret (aged 47) was appointed chief executive of Rathbone Brothers Plc in 2004 having held the position of finance director since 1999. Prior to that, he held positions at Peat, Marwick, Mitchell & Co (now KPMG) and Kleinwort Benson (now Dresdner Kleinwort).

Marty Becker (aged 55) is currently chairman and CEO of Max Capital Group, Ltd (Nasdaq - MXGL) and LaSalle Re, Ltd. He was formerly chairman and CEO of Orion Capital Corporation, President and CEO of McDonough Caperton Insurance Group, and interim chairman and CEO of Trenwick Group, Ltd. He is currently a director of Selective Insurance Group, Inc (Nasdaq - SIGI).

Gordon Hamilton (aged 62) recently retired as a senior audit partner in Deloitte & Touche LLP after more than 30 years, principally involved with listed multi-national company audits and major forensic assignments. He is currently a director of the listed South African group, Barloworld Limited, and is a member of the Financial Reporting Review Panel (FRRP).

Dan Jones (aged 56) retired in 2003 as vice-chairman for Marsh, Inc., responsible for non-North American operations, strategic planning, and mergers/acquisitions, based in London. In 2006 he re-entered the broking business as chief executive for the broking operations of Fred A. Moreton & Co., a Salt Lake City-based regional financial services concern focusing on the western United States.

STATEMENT OF CORPORATE GOVERNANCE

Application of principles of good corporate governance

There is, and historically there has been, throughout the company and the group, a commitment to high standards of corporate governance. The directors continue to develop procedures which ensure that, where the board considers it appropriate, the Beazley group will comply with the Combined Code on corporate governance.

Compliance with code provisions

The board confirms that the company and the group has, save for the composition of the board, complied with the provisions set out in the Combined Code for the year ended 31 December 2007.

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

The board

The board consists of a non-executive chairman, Jonathan Agnew, together with five independent non-executive directors, of which Andy Pomfret is the senior non-executive director, and seven executive directors, of which Andrew Beazley is chief executive. All five of 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.

The board intends to reduce the size of the board within the next 5 years depending upon the size and complexity of the business, and therefore the appointment of further non-executive directors was not considered appropriate notwithstanding that the company is now included in the FTSE 250 index.

Biographies of board members appear on page 41 of this report. These indicate the high levels and 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 terms of reference exist for all board committees. The roles and responsibilities of senior executives and key members of staff are clearly defined.

The full board meets at least four times each year and more frequently where business needs require. The board has a schedule of matters reserved for its decision including, inter alia, statutory matters, approval of financial statements and dividends, appointments and terminations of directors, officers and auditors, appointments of committees and setting of terms of reference, review of group performance against budgets, approving of risk management strategy and material contracts, and the determining of authority levels within which management is required to operate.

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.

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. The remuneration committee considers any remuneration package of executive directors before it is offered to a potential appointee. The members of the audit, remuneration, nomination and investment committees are set out below.

Any director appointed during the year is required, under the provisions of the company's articles of association, to retire and seek re-election by shareholders at the next annual general meeting. The articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting, and the directors required to retire are those in office longest since their previous re-election. In addition, each director is required to retire at least once in any three-year period.

Full details of directors' remuneration and a statement of the company's remuneration policy are set out in the directors' remuneration report on pages 46 to 55. The members of the remuneration committee and the principal terms of reference of the committee appear on page 44.

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

In accordance with the requirements of the Combined Code, the board undertook a formal and rigorous evaluation of its own performance and that of its committees and individual directors in 2007 and the issues identified and recommendations from the evaluation, in particular in relation to the composition of the board are to be implemented

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

Director	Board		Audit		Remuneration		Nomination		Investment	
	No of meetings	No attended	No of meetings	No attended	No of meetings	No attended	No of meetings	No attended	No of meetings	No attended
J G W Agnew	5	5	-	-	-	-	3	3	4	4
A F Beazley	5	5	-	-	-	-	-	-	-	-
M Becker	5	4	8	6	-	-	-	-	4	2
J D Fishburn	5	5	8	6	5	5	3	2	-	-
N H Furlonge	5	5	-	-	-	-	-	-	-	-
J G Gray	5	5	-	-	-	-	-	-	-	-
A G K Hamilton	5	5	8	8	5	5	-	-	-	-
D A Horton	5	5	-	-	-	-	-	-	4	3
D Jones	5	4	-	-	5	4	3	2	-	-
N P Maidment	5	5	-	-	-	-	-	-	4	4
A D Pomfret	5	5	8	8	5	5	3	3	-	-
J G B Rowell	5	5	-	-	-	-	-	-	-	-
C A Washbourn	5	5	-	-	-	-	-	-	-	-

Board committees

The company has established properly constituted audit, remuneration, nomination and investment committees of the board

Audit committee

The audit committee currently comprises Andy Pomfret (committee chairman), Dudley Fishburn, Marty Becker and Gordon Hamilton. The committee regularly meets without any executive management being present and the committee hold regular meetings with the head of internal audit, and with the external auditor

The committee's main objectives are, inter alia, to monitor the integrity of the company's financial statements and any other formal announcements relating to the company's financial performance, review significant financial reporting judgements contained in them, before submission to, and approval by, the board, and before clearance by the external auditors, review the company's internal financial controls and the company's internal control and risk management systems, approve the appointment, or termination of appointment, of the head of internal audit and monitor and review the effectiveness of the company's internal audit function, and review the arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters

The committee also reviews any matters raised by the auditors and internal audit. The chief executive, the finance director, and the risk management director are invited to attend part of each meeting of this committee. The external auditors are invited to attend meetings regularly. The auditors have unrestricted access to the members of the audit committee, and the committee ensures that meetings are used as an open avenue of communication between compliance, internal audit, the external auditors and the board. The committee receives regular updates and monitors the status of actions taken by management to address issues raised by both external and internal audit. Risk management provides reports to the audit committee on the risk assessment and the self-certification from risk owners of the operating effectiveness of internal controls

In respect of any firm of external auditors and consulting actuaries which may be appointed by any group company, the audit committee is also responsible for recommending their appointment and termination, recommending their terms of reference, receiving regular reports, independently of management where necessary, determining their independence, monitoring their performance, and approving their fees

Following a recommendation from the audit committee, the board has adopted a policy 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 auditor such as bookkeeping and accounting services, internal actuarial service, internal audit outsourcing services and executive

remuneration services. The policy requires pre-approval for all material other services such as due diligence assistance, tax services and advice on accounting and audit matters.

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 on page 85. All of these are considered by the audit committee not to affect the auditors' independence or objectivity.

Following publication of the Combined Code on corporate governance, the terms of reference of the audit committee have been expanded. These are published on the company's website.

Remuneration committee

The remuneration committee comprise Dudley Fishburn as chairman, together with Andy Pomfret, Dan Jones and Gordon Hamilton. The work of the remuneration committee is covered further in the directors' remuneration report on pages 46 to 55.

Copies of executive directors' service contracts and the terms and conditions of appointment of the non-executive directors are available for inspection at the company's office during normal business hours.

The terms of reference of the remuneration committee are published on the company's website.

Nomination committee

The nomination committee consists of Jonathan Agnew as chairman, together with Dudley Fishburn, Andy Pomfret and Dan Jones. It meets as required and makes recommendations to the board on all board appointments, including the selection of non-executive directors.

The terms of reference of the nomination committee are published on the company's website.

Investment committee

The investment committee consists of Jonathan Agnew as chairman, together with Andrew Horton, Marty Becker, Neil Maidment, Peter Glynne-Percy (the group's chief investment officer) and Arthur Manners. The committee makes recommendations to the board regarding the investment policy of the Beazley Group and the syndicates, including the establishment of investment guidelines and monitoring of performance and compliance with those guidelines.

The terms of reference of the investment committee are published on the company's website.

Shareholder communication

The company places great importance on communication with shareholders. The full 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 and the chairman, after the preliminary and interim results. The board is advised of any specific comments from institutional investors to enable them 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.

A resolution was approved at the Annual General Meeting in May 2007 to allow the company to communicate with its shareholders using electronic and website communication and to allow for electronic proxy voting.

Audit and internal control

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on pages 56 to 58, and the statement of directors on going concern on page 59.

The board confirms that there is a continuous process for identifying, evaluating and managing any compliance issues and significant risks faced by the group. The internal capital assessment process maps risks to capital requirements through review and challenge and sign-off by the board.

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, but 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 parameters 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. Other internal control procedures and reviews for effectiveness by the board include the

- Preparation of standard monthly, quarterly and periodic reporting as prescribed by the board for review by the various group committees,
- Review of financial, operational and compliance reports from management, and
- Review of any significant issues arising from the external audits

Further information on the role of the audit committee is set out above. The committee, on behalf of the board, approves the internal audit project plan and any subsequent changes. Internal audit reports directly to the audit committee, whose terms of reference include approving the appointment or termination of appointment, of the head of internal audit and monitoring and reviewing the effectiveness of the company's internal audit function.

Further information on risk management at Beazley is contained on pages [x] to [x]

DIRECTORS' REMUNERATION REPORT

Consideration of matters relating to directors' remuneration

The remuneration policy is set by the board and is described below. Individual remuneration packages of executive directors and the chairman are determined by the remuneration committee within the framework of this policy. The remuneration committee consists of the non-executive directors and during the year the members included Dudley Fishburn as chairman, Andy Pomfret, Dan Jones and Gordon Hamilton. The company views each of these directors as independent. The committee met five times during the year.

The committee receives advice from a variety of sources on issues where it considers it appropriate. New Bridge Street Consultants LLP advised the committee on ongoing issues. The committee also calls on specialist advice from a variety of additional sources including SBJ Benefit Consultants Limited for pension's advice, Watson Wyatt publications for salary data, The Share Option Centre, and internal advisers including the chief executive and the company secretary who present to the committee on specific issues.

Remuneration policy statement

The directors believe that performance related remuneration is an essential motivation to management and staff, and this policy will form the basis for determining executive directors' remuneration for the current and forthcoming financial years. 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 company's policy is to remunerate the executive directors and other management fairly in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel. The measurement of the executive directors' performance and the determination of their annual remuneration package is undertaken by the remuneration committee. The main elements of the remuneration package payable under the service agreement of each executive director comprise basic salary, short-term incentive payments, pension contributions, share-based incentives and other benefits. Other benefits include private medical insurance for the director and his immediate family, permanent health insurance, death in service benefit at four times annual salary, accident and travel insurance, healthclub membership, season ticket, car parking and the provision of either a company car or a monthly car allowance.

In line with Lloyd's market practice there are no upper limits on the amounts payable to individuals under short-term incentives. The committee has considered whether it is appropriate to set an upper limit and has agreed that such a limit would adversely affect the company's competitive position and would not be in the interests of shareholders. The incentive payments, which comprise short-term incentive payments and share incentive plans, are awarded on a discretionary basis, and are determined by the committee in respect of performance of both the individual and the company. As the profitability of the group has improved significantly during the year, the committee was able to reflect this improved performance in the incentive awards made to directors. The policy is to ensure that a material proportion of each executive director's overall remuneration is performance based to align executive directors' interests with those of shareholders.

The board, on a bi-annual basis, determines the remuneration of the non-executive directors with details set out below. No director plays a part in any discussion about his own remuneration.

The directors believe that a key element of the remuneration strategy is the share incentive plans that further align the interests of participants in the plans with shareholders' interests. Entitlements under certain plans are subject to the achievement of performance conditions as described below under share incentive plans.

Also it is important that the incentive arrangements for directors include an element of downside risk by having shareholdings and through the deferment of future bonuses that will be at risk if the syndicate declares losses.

Section headings marked ■ indicate the information in that section that has been audited.

■ Service contracts

The company has service contracts with executive directors. It is company policy that such contracts contain notice periods of not more than twelve months. Details of the contracts currently in place for executive directors who have served during the year and their basic salary for 2008 are as follows.

	Annual salary £	Date of contract	Unexpired term*	Notice period	Provision for compensation
A F Beazley	450,000	6 Nov 2002	n/a	12 months	Nil
N H Furlonge	225,000	6 Nov 2002	n/a	12 months	Nil
J G Gray	285,000	6 Nov 2002	n/a	12 months	Nil
D A Horton	280,000	1 Jun 2003	n/a	12 months	Nil
N P Maidment	260,000	6 Nov 2002	n/a	12 months	Nil
J G B Rowell	400,000	6 Nov 2002	n/a	12 months	Nil
C A Washbourn	260,000	6 Dec 2006	n/a	12 months	Nil

- The unexpired term is not applicable as each of the executive director's contract is on a rolling basis

Subject to the notice requirements described above, there is no provision in the service agreements for compensation to be payable on early termination of the contract. The company will normally phase any payments of compensation which will also be subject to negotiation and mitigation.

Non-executive directors

The fees of non-executive directors, other than the chairman, are determined by the board. When setting fee levels consideration is given to levels in comparable companies for comparable services.

No non-executive director participates in the company'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 includes the candidate bringing 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 are as follows:

- Insurance sector expertise,
- Asset management skills,
- Public company and corporate governance experience,
- Risk management skills, and
- Finance skills

A bi-annual review of the fees and other income payable was carried by the board in December 2006.

Details of the non-executive directors' terms of appointment and their fees for 2008 are set out below

	Current annual fees £	Term of appointment	Expires	Other income* £
J G W Agnew	75,000	3 years	31 Dec 2008	-
J D Fishburn	42,000	3 years	31 Dec 2008	7,000
A D Pomfret	42,000	3 years	31 Dec 2008	14,000
D L Jones	42,000	3 years	30 June 2009	-
W M Becker	42,000	3 years	7 May 2009	-
A G K Hamilton	42,000	3 years	7 Sept 2009	-

* Other income relates to the additional fee payable to A D Pomfret in respect of his chairmanship of the audit committee and as senior non-executive director and to J D Fishburn in respect of his chairmanship of the remuneration committee

Individual aspects of remuneration

A summary of the key elements of short and long term remuneration are as follows

Element	Objective	Conditions
Base salary	To recognise responsibilities	None
Benefits	To provide basis benefit	Reviewed annually with increases dependent on Group and individual performance
Pension	To provide funding for retirement	Defined contribution based on salary
Enterprise bonus	To link cash reward to company return on equity	Minimum return on equity to be achieved
Deferred shares	To defer a proportion of Enterprise bonus in shares	Vesting dependent on continued employment for three years
Retention shares	To retain key staff	Full vesting dependent on continued employment over 6 years
LTIP	To provide an incentive linked to long term shareholder returns	Vesting based on TSR relative to peer group over a three year period and continued employment
Staff underwriting	To have an element of downside risk	Deferred bonuses at risk from underwriting results

▪ Details of individual emoluments and compensation

The emoluments in respect of qualifying services and compensation of each person who served as a director during the year were as follows

	Salary & fees ¹ £	Enterprise bonus - cash £	Enterprise bonus Deferred Shares £	Staff underwriting Distribution £	Staff Underwriting deferred bonus £	Benefits ² £	Salary supplements in lieu of pension contributions £	Total for 12 months to 31 December 2007 £	Personal pension contributions £	Total for months to December 2007 £
J G W Agnew	75,000	-	-	-	-	-	-	75,000	-	68,000
A F Beazley	450,000	1,090,505	150,000	27,129	81,975	18,460	179,521	1,997,590	-	1,702,590
J D Fishburn	49,000	-	-	-	-	-	-	49,000	-	43,000
N H Furlonge	255,000	480,000	100,000	36,071	-	17,159	124,340	1,012,570	-	837,570
J G Gray	285,000	724,346	171,000	25,222	-	17,975	-	1,223,543	42,750	939,793
D A Horton	280,000	542,800	167,000	25,222	47,200	13,679	-	1,075,901	42,000	880,901
N P Maidment	260,000	666,890	170,000	25,222	-	20,679	-	1,142,791	39,000	977,791
A D Pomfret	56,000	-	-	-	-	-	-	56,000	-	46,000
J G Rowell	400,000	1,149,738	300,000	44,752	157,367	16,423	-	2,068,280	60,000	1,785,280
C A Washbourn	260,000	770,000	200,000	24,771	-	10,715	-	1,265,486	39,000	881,486
D L Jones	42,000	-	-	-	-	-	-	42,000	-	19,000
W M Becker	42,000	-	-	-	-	-	-	42,000	-	24,000
A G K Hamilton	42,000	-	-	-	-	-	-	42,000	-	11,000
Total	2,496,000	5,424,279	1,258,000	208,389	286,542	115,090	303,861	10,092,161	222,750	8,217,161

- 1 Other than for the chairman, fees include fees paid for membership of board committees (investment, audit, remuneration and nomination committees)
- 2 The benefits comprise those detailed in the service contracts of the executive directors and relate to the standard benefits such as private medical insurance, car allowance, etc
- 3 The directors have deferred bonus entitlements to support their underwriting through Beazley Staff Underwriting Limited

Salary

The remuneration committee reviews salaries annually taking into account levels in comparable positions in other similar financial companies. It also considers the performance of the group, individual and average salary increases for employees across the whole group. The annual salary reviews take place in December of each year and the Remuneration Committee agreed that there should be no salary increases awarded for 2008 for the executive directors as a measure to increase awareness for cost management in the business.

Short-term incentives

Enterprise bonus pool

A scheme based on achieving stretching target returns on group equity with minimum hurdles to be met has been established that better aligns the interests of directors and staff with shareholders.

A proportion of this pool is allocated among executive directors at the discretion of the committee. In determining the award levels, as the group's return on equity has improved, the level of awards made was increased.

In addition, a proportion of any award can be paid in deferred shares that will vest after three years dependent only on continued employment. It has been agreed that dividends on shares paid prior to vesting will be rolled up and paid will as a equivalent cash bonus at the time of the vesting of the shares.

Retention plan

In addition to the enterprise bonus pool, senior executives will be eligible to receive conditional awards of ordinary shares under the retention plan.

The retention plan is operated on a discretionary basis based on performance to ensure key individuals have an adequate retention package and the first grant of awards was made in April 2005. The remuneration committee has concluded that the award of retention shares should be targeted at key staff where retention is essential to the business.

During the year the Remuneration Committee reviewed rules of the scheme and concluded that the release of the shares that had been awarded should be accelerated from releasing 15% of the outstanding awards (every year after the first three years) so that the retention value was better recognised by the employees. The rules were amended as follows:

- For awards made prior to November 2006, 33% of the shares will be released on the third anniversary and for the two years after that, a further 33% of the original award of shares will vest,
- For awards made in or after November 2006, 25% of the shares will be released on the third anniversary and for the three years after that, a further 25% of the original award of shares will vest,,

The total number of shares awarded to date has been 6,766,190 of which 5,941,820 ordinary shares are held by the employee benefit trust

Special award of retention shares to Andrew Horton

On 5th October 2007 the remuneration committee awarded 1 million retention shares to Andrew Horton which was in excess of the grants allowed under the existing scheme. The committee felt it was necessary to provide this meaningful incentive to retain his services in the longer term as he has made a significant contribution to the group. 25% of the shares awarded shall become transferable to Andrew Horton on the third anniversary of the grant. Thereafter, 25% of the original award under the scheme shall become transferable on the anniversary for each subsequent three financial years, subject to Andrew remaining a director or employee within the company's group. Dividends on shares still subject to retention will be rolled up and paid from the third anniversary and thereafter whenever dividends are paid to shareholders.

The award will be forfeited if Andrew Horton ceases to be an employee or director of the company's group unless he ceases by reason of injury, ill-health or permanent disability, retirement, redundancy, the sale or transfer of his employing company or business out of the company's group, or any other reason permitted by the remuneration committee. In these circumstances, the award will vest early to the extent and on such terms determined by the remuneration committee.

In the event of a takeover (not being an internal corporate reorganisation) or the voluntary winding-up of the company the award will vest early. In the event of an internal corporate reorganisation awards may be replaced by equivalent new awards over shares in a new holding company. No payment is required on the grant of the award. The award is not transferable, except on death. The award is not pensionable. The award is over shares held by the company's employees' benefit trust and does not confer any shareholder rights until shares are transferred. In the event of any variation of the company's share capital the remuneration committee may make such adjustment as it considers fair and reasonable to the number of shares subject to the award. The remuneration committee may, at any time, amend this special award in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of Andrew Horton in respect of the terms applying to the size of his award and the basis for determining his entitlement to, and the terms of, the shares and the adjustment of his award. This prior approval will not, however, apply to any minor alteration made to benefit the administration of the award, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

▪ Pensions

All executive directors, except Andrew Horton, participated in the Beazley Furlonge Limited final salary pension scheme up to 31 March 2006 when it was decided that accruals for future service for all members of the scheme should cease.

Details of the entitlements for service accruals up to 31 March 2006 of those directors who participated in the final salary scheme during the year are as follows:

	Accrued benefit at 31 Dec 2007	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 2007	Increase in transfer value less directors' contributions
	£	£	£	£	£	£
A F Beazley	222,321	0	0	0	4,218,994	278,451
N H Furlonge	139,243	0	0	0	2,917,985	52,773
J G Gray	26,623	0	1,132	0	536,673	113,261
N P Maidment	30,707	0	1,306	0	373,608	39,523
J G B Rowell	26,623	0	1,132	0	335,747	35,264
C A Washbourn	14,373	0	611	0	189,211	19,715

The increase in the transfer value for the past service entitlement of A F Beazley and N H Furlonge reflects the increase in pensionable salary and the change in discount rate used in the transfer value calculations.

The pension benefits for directors and staff are now provided by way of a defined contribution scheme arranged through Fidelity, which is non-contributory. The company contributes 15% of salary for directors. Andrew Beazley and Nick Furlonge do not participate in this plan but, instead, receive a salary supplement in lieu of pension.

No other pension provisions are made. 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.

Share incentive plans

The company operates a variety of long-term, share-based incentives including, tax-approved and unapproved option plans, a long-term incentive plan (LTIP) and a save-as-you-earn scheme (SAYE), which are detailed below.

In 2005 it was agreed that in the future share option grants (other than those under the Beazley SAYE scheme which have substantial tax advantages for participants) are to be made only in exceptional circumstances, e.g. recruitment, when the terms of those share options will reflect best practice prevailing at that time. In particular, there will be no retesting of performance conditions on those grants. Existing options will be honoured and allowed to run their full course.

■ The long-term incentive plan

Participation in the LTIP is restricted to employees and full-time executive directors of the Beazley Group. Participants are selected on a discretionary basis, and receive awards of free shares in the form of a nil-cost option, thus, no exercise price is payable. The options will normally be exercisable (subject to meeting the performance conditions set out below and provided that the participant continues in the employment of the company at that date) between the third and tenth anniversaries of grant.

The LTIP awards that were granted in March 2004 met the performance criteria established in part and 70% of the options vested.

The maximum normal levels of grants that may be made under the LTIP to one individual is one times salary in any financial year, measured by the value of ordinary shares put under award at the time of the award. Dividends are not currently accrued on ordinary shares prior to vesting and the number of shares awarded is not therefore adjusted. The committee will keep this issue under review for future awards.

Awards are measured by total shareholder return (TSR) and net asset value (NAV) performance. The company decided upon these measures as TSR aligns the interests of directors with shareholders by requiring superior TSR performance and NAV is a key measure of the company's financial performance.

The LTIP performance conditions were originally set when the scheme was established by board resolution on 6 November 2002. The performance conditions were amended at an extraordinary general meeting on 14 March 2005 for grants made after that date.

Shares worth up to 50% of salary ("Basic Shares")	NAV Regardless of the TSR performance, 50% of the Basic shares will be received if NAV growth is at least the risk free rate of return plus 5% per year.
	TSR Regardless of the NAV growth, 25% of the Basic Shares will be received for median TSR performance and 50% of the Basic Shares will be received for upper quartile TSR performance. For TSR performance between median and upper quartile the number of Basic Shares which will be received is determined on a straight-line basis.
Shares worth more than 50% of salary ("Additional Shares")	NAV Regardless of TSR performance, 50% of the Additional Shares will be received if NAV growth is at least the risk free rate of return plus 10% per year. For out-performance of the risk free rate of return of between 5% and 10%, the number of Additional Shares which will be received is determined on a straight-line basis.

TSR

Regardless of NAV growth, 50% of the Additional Shares will be received if top decile TSR performance is achieved
For TSR performance between upper quartile and top decile performance, the number of Additional Shares which will be received is determined on a straight-line basis

The company's TSR growth is compared with that of members of a comparator group comprising 11 companies from the insurance sector (the "comparator group") over a three-year period starting with the year in which the award is made. The comparator group is defined as the Lloyd's vehicles listed on the London Stock Exchange and includes the following companies for the 2007 awards:

- Alea
- Amlin
- Atrium
- Brit Insurance
- Catlin Group
- Chaucer
- Hardy
- Highway
- Hiscox
- Kiln
- Novae Group

The comparator group has not changed from last year

Details of entitlements under this plan, which are all subject to the above performance conditions, for directors who served during the period, are set out in the next table

▪ The pre-IPO plan

Participation in the pre-IPO plan is restricted to employees and full-time executive directors of the Beazley Group. Participants were selected on a discretionary basis. No payment is required for the grant of an option. All options under the pre-IPO plan were granted on 6 November 2002 and no further grants are anticipated. The performance conditions were met on 22 January 2007 and 75% of the awards vested.

▪ The unapproved share option plan

Participation in the unapproved plan is restricted to employees and full-time executive directors of the Beazley Group, although it is the committee's intention to only make awards under this plan in exceptional circumstances. Participants are selected on a discretionary basis. No payment is required for the grant of an option and the limit on grants when aggregated with awards under the LTIP is shares with a face value of one times salary or twice salary in exceptional circumstances.

Under both the approved and unapproved share option plans, options are subject to performance conditions and typically vest on the third anniversary of the date of grant, provided that the participant has remained in employment to that date. The performance conditions require the company's NAV plus dividends per share growth to increase as follows over a three-year period:

- An option may be exercised over all ordinary shares under option if the cumulative growth in NAV plus dividends per share is equal to or exceeds the risk-free rate of return (this being defined as the average yield of UK gilts with maturity dates within the next five years) in the relevant period plus 10% per annum,
- An option may be exercised over half the ordinary shares under option if the cumulative growth in NAV plus dividends per share is equal to the risk-free rate of return plus 5% per annum,
- For performance where the cumulative growth in NAV plus dividends per share equals a number between the risk-free rate of return plus 5% and 10% per annum, the number of ordinary shares over which an option can be exercised will be calculated on a straight-line basis between these two points,
- For options granted before 2005, if the option is not fully exercisable at the end of the three-year period, it will be re-tested once, on the fourth anniversary of the date of grant, from a fixed base. The option is exercisable over whichever is the higher number of options vesting. No options have been granted since 2005, and
- The option will lapse if NAV plus dividends per share performance is below the risk-free rate of return plus 5% per annum in both periods.

The performance conditions above were set when these plans were established by board resolution on 6 November 2002. These performance conditions were considered to be appropriate as, they impose demanding performance requirements, while ensuring that shareholders also receive attractive returns over the performance period.

A proportion of the unapproved (and approved) options granted in 2003 vested following the announcement of the results for the year ended 31 December 2006 and the balance of the options lapsed. The unapproved (and approved) options granted in 2004 vested in part following the announcement of the results for the year ended 31 December 2006 and the balance of the options are available to re-tested following the announcement of the results for the year ended 31 December 2007.

▪ The approved share option plan

Participation in the approved plan is restricted to employees and full-time executive directors of the Beazley group. The terms and conditions are consistent with the unapproved plan, except that the plan has been approved by HMRC (formerly known as the Inland Revenue).

Save-as-you-earn-scheme

A SAYE scheme, administered by Yorkshire Bank plc, was launched in May 2003 for the benefit of staff. The scheme rules were approved by HMRC.

The scheme offered a three-year savings contract period with options being offered at a price of 74p for grants in 2005, 93p for grants in 2006 and 114.5p for the grants in 2007 representing the maximum allowed discount of 20%. Monthly contributions are made through payroll deduction directly to individual Yorkshire Bank accounts on behalf of participating employees.

All employees who had completed their probationary period prior to the closure of the invitation period were considered eligible to participate in the scheme.

Savings-related share option plan for US employees

The Beazley Group plc savings-related share option plan for US employees (the Plan) permits all eligible US-based employees to purchase shares of Beazley Group at a discount of up to 15% to the shares' fair market value. The plan is designed to comply with the terms of Section 423 of the US Internal Revenue Code. A similar arrangement (SAYE scheme) is in place for UK-based Beazley Group employees. Approval is being sought from shareholders for the adoption of this Plan.

Participants elect to participate by entering into a savings contract under which the participant agrees to have a portion of his or her compensation withheld in a savings plan for the purpose of exercising options granted under the Plan. The maximum amount of compensation that may be withheld each month under all savings contracts for any participant may not exceed £250.

After a two-year period, participants may exercise their options to purchase Beazley shares at the exercise price. The shares purchased are non-transferable for at least 12 months following exercise. Unexercised options lapse twenty-seven months after the date on which the options were granted.

Options may be exercised early in the event of an employee's death or retirement, certain other cessations of employment and certain Beazley group change in control events. The Plan, by its terms, will terminate on 5 May 2016, which is the tenth anniversary of its adoption.

The share plans permit 10% of the company's share capital to be issued pursuant to options/LTIP awards in a 10-year period. Since November 2002, 30% of this allowance (3.0%) has been allocated for option and LTIP awards.

▪ Directors' share scheme interests

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

	Scheme	At 31 Dec 2006	Awarded	Exercised	Lapsed	At 31 Dec 2007	Ex. Price	Earliest date of exercise	Expiry date
A F Beazley	Pre-IPO plan	996,584	-	747,438	249,146	-	71.44	06/11/2005	06/11/2012
	Unapproved plan	244,086	-	-	244,086	-	71.44	06/11/2005	06/11/2012
	Unapproved plan	153,265	-	88,434	64,831	-	90.04	15/05/2006	15/05/2013
	Unapproved plan	84,300	-	54,121	-	30,179	93.95	29/03/2007	29/03/2014
	LTIP	28,101	-	-	8,261	19,840	Nil	29/03/2007	29/03/2014
	LTIP	140,449	-	-	-	140,449	Nil	21/03/2008	21/03/2015

	LTIP	133,698	-	-	-	133,698	Nil	21/03/2009	21/03/2016
	LTIP	-	140,186	-	-	140,186	Nil	13/03/2010	13/03/2017
	SAYE 2006	10,083	-	-	-	10,083	92.73	01/07/2006	01/01/2010
	Retention plan	112,359	-	-	-	112,359	Nil	21/03/2008	-
	Retention plan	222,831	-	-	-	222,831	Nil	21/03/2009	-
	Deferred Plan	-	140,186	-	-	140,186	Nil	13/03/2010	13/04/2010
N H Furlonge	Pre-IPO plan	410,358	-	307,769	102,589	-	71.44	06/11/2005	06/11/2012
	Approved plan	31,931	-	20,500	-	11,431	93.95	29/03/2007	29/03/2014
	Unapproved plan	92,385	-	-	92,385	-	71.44	06/11/2005	06/11/2012
	Unapproved plan	72,512	-	41,839	30,673	-	71.44	15/05/2006	15/05/2013
	Unapproved plan	25,545	-	16,400	-	9,145	93.95	29/03/2007	29/03/2014
	LTIP	19,159	-	13,527	5,632	-	Nil	29/03/2007	29/03/2014
	LTIP	184,831	-	-	-	184,831	Nil	21/03/2008	21/03/2015
	LTIP	70,781	-	-	-	70,781	Nil	21/03/2009	21/03/2016
	LTIP	-	70,093	-	-	70,093	Nil	13/03/2010	13/03/2017
	SAYE 2004	12,736	-	12,736	-	Nil	Nil	N/A	N/A
	SAYE 2007	-	8,253	-	-	8,253	114.5	01/07/2007	01/01/2011
	Retention plan	28,089	-	-	-	28,089	Nil	21/03/2008	-
	Retention plan	70,781	-	-	-	70,781	Nil	21/03/2009	-
	Deferred Plan	-	70,093	-	-	70,093	Nil	13/03/2010	13/04/2010
J G Gray	Pre-IPO plan	820,716	-	615,537	205,179	-	71.44	06/11/2005	06/11/2012
	Approved plan	31,931	-	20,500	-	11,431	93.95	29/03/2007	29/03/2014
	Unapproved plan	118,105	-	-	118,105	-	71.44	06/11/2005	06/11/2012
	Unapproved plan	92,700	-	53,488	39,212	-	90.04	15/05/2006	15/05/2013
	Unapproved plan	33,209	-	21,320	-	11,889	93.95	29/03/2007	29/03/2014
	LTIP	21,714	-	15,331	6,383	-	Nil	29/03/2007	29/03/2014
	LTIP	190,730	-	-	-	190,730	Nil	21/03/2008	21/03/2015
	LTIP	101,506	-	-	-	101,506	Nil	21/03/2009	21/03/2016
	LTIP	-	105,140	-	-	105,140	Nil	13/03/2010	13/03/2017
	SAYE 2007	-	8,253	-	-	8,253	114.5	01/07/2007	01/01/2011
	Retention plan	84,269	-	-	-	84,269	Nil	21/03/2008	-
	Retention plan	135,341	-	-	-	135,341	Nil	21/03/2009	-
	Deferred Plan	-	119,158	-	-	119,158	Nil	13/03/2010	13/04/2010
	Deferred Plan	-	70,093	-	-	70,093	Nil	13/03/2010	13/04/2010
D A Horton	Pre-IPO plan	-	-	-	-	-	-	-	-
	Approved plan	30,351	-	17,513	12,838	-	98.84	13/06/2006	13/06/2013
	Approved plan	1	-	-	1	-	93.95	29/03/2007	29/03/2014
	Unapproved plan	159,348	-	91,944	67,404	-	98.84	13/06/2006	13/06/2013
	Unapproved plan	65,140	-	41,819	-	23,321	93.95	29/03/2007	29/03/2014
	LTIP	21,714	-	15,331	6,383	-	Nil	29/03/2007	29/03/2014
	LTIP	189,606	-	-	-	189,606	Nil	21/03/2008	21/03/2015
	LTIP	88,476	-	-	-	88,476	Nil	21/03/2009	21/03/2016
	LTIP	-	70,093	-	-	70,093	Nil	13/03/2010	13/03/2017
	SAYE 2004	12,736	-	12,736	-	Nil	Nil	N/A	N/A
	SAYE 2007	-	8,253	-	-	8,253	114.5	01/07/2007	01/01/2011
	Retention plan	95,505	-	-	-	95,505	Nil	21/03/2008	-
	Retention plan	117,968	-	-	-	117,968	Nil	21/03/2009	-
	Retention plan	-	1,000,000	-	-	1,000,000	Nil	09/10/2010	-
	Deferred Plan	-	119,158	-	-	119,158	Nil	13/03/2010	13/04/2010
N P Maidment	Pre-IPO plan	879,339	-	659,504	219,935	-	71.44	06/11/2005	06/11/2012
	Approved plan	31,931	-	20,500	-	11,431	93.95	29/03/2007	29/03/2014
	Unapproved plan	115,481	-	-	115,481	-	71.44	06/11/2005	06/11/2012
	Unapproved plan	90,641	-	52,300	38,341	-	90.04	15/05/2006	15/05/2013
	Unapproved plan	33,209	-	21,320	-	11,889	93.95	29/03/2007	29/03/2014
	LTIP	21,714	-	15,331	6,383	-	Nil	29/03/2007	29/03/2014
	LTIP	186,404	-	-	-	186,404	Nil	21/03/2008	21/03/2015
	LTIP	68,487	-	-	-	68,487	Nil	21/03/2009	21/03/2016
	LTIP	-	70,093	-	-	70,093	Nil	13/03/2010	13/03/2017
	SAYE 2006	10,083	-	-	-	10,083	92.73	01/07/2006	01/01/2010
	Retention Plan	84,269	-	-	-	84,269	Nil	21/03/2008	-
	Retention Plan	91,317	-	-	-	91,317	Nil	21/03/2009	-
	Deferred Plan	-	119,158	-	-	119,158	Nil	13/03/2010	13/04/2010
	Deferred Plan	-	70,093	-	-	70,093	Nil	13/03/2010	13/04/2010

J G B Rowell	Deferred Plan	-	119 158	-	-	119,158	Nil	13/03/2010	13/04/2010
	Pre-IPO plan	586,226	-	439 669	146 557	-	71 44	06/11/2005	06/11/2012
	Approved plan	31 931	-	-	-	31 931	93 95	29/03/2007	29/03/2014
	Unapproved plan	120 731	-	-	120,731	-	71 44	06/11/2005	06/11/2012
	Unapproved plan	94 760	-	-	40,083	54,677	90 04	15/05/2006	15/05/2013
	Unapproved plan	33,209	-	-	-	33 209	93 95	29/03/2007	29/03/2014
	LTIP	21 714	-	15,331	6,383	-	Nil	29/03/2007	29/03/2014
	LTIP	210 112	-	-	-	210,112	Nil	21/03/2008	21/03/2015
	LTIP	121,639	-	-	-	121 639	Nil	21/03/2009	21/03/2016
	LTIP	-	140 186	-	-	140,186	Nil	13/03/2010	13/03/2017
	SAYE 2007	-	8,253	-	-	8,253	114 5	01/07/2007	01/01/2011
	Retention plan	84,269	-	-	-	84,269	Nil	21/03/2008	-
	Retention plan	162 186	-	-	-	162 186	Nil	21/03/2009	-
	Deferred Plan	-	245,327	-	-	245 327	Nil	13/03/2010	13/04/2010
C A Washbourn	Pre-IPO plan	486,567	-	364 925	121,642	-	73	06/11/2005	06/11/2012
	Approved plan	39 297	-	-	39,297	-	78	13/11/2005	13/11/2012
	Unapproved plan	60 366	-	-	60 366	-	73	06/11/2005	06/11/2012
	Unapproved plan	5 567	-	-	5 567	-	78	13/11/2005	13/11/2012
	Unapproved plan	64,272	-	-	27 187	37,085	92	15/05/2006	15/05/2013
	Unapproved plan	65,141	-	-	-	65 141	96	29/03/2007	29/03/2013
	LTIP	21 714	-	-	6,383	15 331	Nil	24/03/2007	24/03/2014
	LTIP	169 101	-	-	-	169,101	Nil	21/03/2008	21/03/2015
	LTIP	90 181	-	-	-	90 181	Nil	21/03/2009	21/03/2016
	LTIP	-	147 196	-	-	147,196	Nil	13/03/2010	13/03/2017
	SAYE 2004	12 736	-	12,736	-	Nil	Nil	N/A	N/A
	Retention plan	95,505	-	-	-	95,505	Nil	21/03/2008	-
	Retention plan	120 241	-	-	-	120 241	Nil	21/03/2009	-
	Retention plan	1,000,000	-	-	-	1,000 000	Nil	4/12/2009	-
	Deferred Plan	-	105 140	-	-	105 140	Nil	13/03/2010	13/04/2010

LTIP awards mid-market price at 26 March 2004 was 94p (Source Bloomberg)

LTIP awards mid-market price at 18 March 2005 was 89p (Source Bloomberg)

LTIP awards mid-market price at 21 March 2006 was 116p (Source Bloomberg)

LTIP awards mid-market price at 13 March 2007 was 142p (Source Bloomberg)

▪ Directors' interests in shares

Details of the ordinary shareholdings of the directors who held office during the year are as follows

	Number of ordinary shares held as at 1 January 2007	Options exercised	Options sold	Shares sold	Number of ordinary shares held as at 31 December 2007	Shareholding as a percentage of the total issued ordinary share capital as at 31 December 2007
J G W Agnew	114,263	-	-	-	114,263	0.03%
A F Beazley	5,485,300	889,993	(860,421)	(3,000,000)	2,514,872	0.70%
J D Fishburn	15,714	-	-	-	15,714	0.00%
N H Furlonge	2,511,622	412,771	(366,341)	(1,250,000)	1,308,052	0.35%
J G Gray	3,381,750	726,176	(718,328)	(1,000,000)	2,389,598	0.66%
D A Horton	36,461	179,342	(127,298)	-	88,505	0.02%
N P Maidment	2,958,251	768,955	(761,107)	-	2,966,099	0.82%
A D Pomfret	16,500	-	-	-	16,500	0.00%
J G B Rowell	4,783,608	455,001	(334,599)	-	4,904,010	1.35%
C A Washbourn	-	377,661	(377,661)	-	-	0.00%
W M Becker	20,000	-	-	-	20,000	0.01%
A G K Hamilton	10,000	-	-	-	10,000	0.01%
D L Jones	20,000	-	-	-	20,000	0.00%

With a total of 363,879,762 issued shares at 31 December 2007 (net of shares held in Treasury) the directors held 3.97%

As beneficiaries of the employee benefit trust, the executive directors are deemed to be interested in the shares held by the trust which at 31 December 2007 amounted to 5,941,820 ordinary shares

▪ **Underwriting interests on Syndicate 623**

The incentive arrangements for directors and key decision makers in the business include an element of downside risk through the deferment of future bonuses that will be at risk if the syndicate declares losses through the participation in Beazley Staff Underwriting. To date over 100 employees of the group have committed to put at risk £5.4m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £2.4m has already been deferred from the bonuses awarded.

The following directors participated in Syndicate 623 either directly through NameCos or indirectly through Beazley Staff Underwriting Limited

	2007 year of account capacity	2008 year of account capacity
	£	£
A F Beazley	1,965,116	437,209
N H Furlonge	232,558	300,000
J G Gray	122,791	300,000
D A Horton	232,558	300,000
N P Maidment	122,791	300,000
J G B Rowell	2,398,954	3,016,017
C A Washbourn	120,598	300,000

The directors believe that it is important that the incentive arrangements include an element of downside risk to align further with the interests of capital providers. The directors participate in the underwriting and have exposure to underwriting results either through direct involvements in NameCos or through participation in Beazley Staff Underwriting Limited that provides an indirect involvement in the results of the syndicate.

Annual general meeting

A resolution will be proposed at the forthcoming annual general meeting to be held on 21 April 2008 to approve this directors' remuneration report.

By order of the board

Dudley Fishburn
Chairman of the remuneration committee
Plantation Place South
60 Great Tower Street
London EC3R 5AD

26 February 2008

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2007

Principal activity

The company is the ultimate holding company for the Beazley group, a global specialist risk insurance and reinsurance business operating through Lloyd's syndicates 2623 and 623 in the UK and BICI, 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 on pages * to * and the business review on pages * to *

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2007 amounted to £138.5m (2006 £86.8m)

The directors recommend a final dividend of 4.0p (2006 3.2p) per ordinary share and a special dividend of 4.0p per share. This, when taken with the interim dividend of 2.0p (2006 1.6p) per share, gives a total ordinary dividend of 6.0p per share for the year ended 31 December 2007 (2006 4.8p). The total dividend payable for the year is 10.0p per ordinary share.

Directors

The directors of the company at 31 December 2007, who served during the year and to the date of this report, were as follows

Jonathan Geoffrey William Agnew	(non-executive chairman)
Andrew Frederick Beazley	(chief executive)
David Andrew Horton	(group finance director)
Nicholas Hill Furlonge	(director)
Jonathan George Gray	(director)
Neil Patrick Maidment	(director)
Jonathan George Benton Rowell	(director)
Clive Andrew Washbourn	(director)
John Dudley Fishburn	(non-executive director)
Andrew David Pomfret	(non-executive director)
Daniel Lawrence Jones	(non-executive director)
William Marston Becker	(non-executive director)
Alexander Gordon Kelso Hamilton	(non-executive director)

In accordance with the articles of association Andrew Beazley, Nicholas Furlonge, Neil Maidment and Dudley Fishburn retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Details of directors' service contracts and beneficial interests in the company's share capital are given in the directors' remuneration report on pages ** to **. Biographies of directors seeking re-election are set out on page **.

Corporate governance

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

Going concern

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

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.

Supplier payment policy

The company and group's policy for the year ending 31 December 2007, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. The group had an average 47 days, purchases included in trade creditors at 31 December 2007 (2006: 50 days).

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages ** to **

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

Financial instruments and risk management

The board agrees and reviews policies and financial instruments for risk management.

Further information on reinsurance, borrowings and financial instruments is contained in notes ***** to the financial statements.

Substantial shareholdings

As at 19 February 2008, 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	%
Amvescap plc and subsidiaries	53,492,881	14.7
JP Morgan Asset Management	32,306,491	8.9
Barclays Global Investors	29,744,570	8.2
Jupiter Asset Management	27,594,505	7.6
Legal & General Investment Management	20,959,995	5.8
Aberforth Partners	17,978,799	4.9
Scottish Widows	12,957,514	3.6
SSGA	11,656,062	3.2

Annual general meeting [TBA]

The notice of the annual general meeting to be held at 4.00pm on Thursday, 21 April 2008 at Plantation Place South is set out in the circular to shareholders regarding the annual general meeting.

Resolutions to be proposed at the forthcoming annual general meeting are, inter alia:

- Renew the directors' general authority to allot the company's ordinary shares up to an aggregate nominal amount of £4,500,000. This authority shall expire on whichever is the earlier of the conclusion of the annual general meeting of the company to be held in 2008 or the date falling fifteen months from the passing of this resolution. The directors have no present intention of exercising this authority, which represents 24.75% of the present issued share capital.
- Approve a limited disapplication of pre-emption rights on allotments for cash up to an aggregate nominal amount of £900,000, representing 4.95% of the present issued share capital.
- Authorise the directors to make purchases of the company's ordinary shares in the market for cancellation or to be held in treasury when the directors consider that it would be in the best interests of the company to do so, up to an aggregate nominal amount of £1,800,000, representing 9.9% of the present issued share capital.

Following the introduction of The Companies (Acquisitions of Own Shares) (Treasury Shares) Regulations 2003, companies are now able to hold shares acquired by way of market purchase in treasury, rather than cancelling them. The company may consider holding any of its own shares which it purchases pursuant to the authority conferred by the relevant resolution as treasury shares. This would allow the company to sell shares out of treasury, providing the company with the ability to replenish its distributable reserves. No dividends will be paid on any shares held in treasury and no voting rights will attach to such shares. It will also be possible for the company to transfer shares out of treasury, pursuant to an employee share scheme.

At 26 February 2008 the company held 5,748,038 ordinary shares in treasury.

This is a renewal of the authority granted by shareholders at the 2004 annual general meeting

- A resolution to adopt new Articles of Association to reflect the provisions of the Companies Act 2006 relating to directors conflicts of interests

At 26 February 2008 there are outstanding options to subscribe for 6.9m ordinary shares pursuant to employee share schemes, representing 1.9% of the issued share capital. If the authority to purchase shares were exercised in full, these options would represent 2.1% of the enlarged issued share capital.

Auditors

A resolution to re-appoint KPMG Audit plc as auditors will be proposed at the forthcoming 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 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.

By order of the board

A R Manners
Company secretary
Plantation Place South
60 Great Tower Street
London EC3R 5AD



26 February 2008

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.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 judgments 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 proper accounting records that 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 Act 1985. 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 Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply 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 governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BEAZLEY GROUP PLC

We have audited the group and parent company financial statements (the "financial statements") of Beazley Group plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state them in an auditors 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 auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 61.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

A handwritten signature in black ink that reads "KPMG Audit Plc". The signature is stylized and includes a long horizontal stroke extending to the right.

KPMG Audit Plc
Chartered accountants
Registered auditor

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

26 February 2008

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £m	2006 £m
Gross premiums written	3	780.5	745.1
Written premiums ceded to reinsurers		(128.3)	(170.8)
Net premiums written	3	652.2	574.3
Change in gross provision for unearned premiums		(24.7)	(84.9)
Reinsurer's share of change in the provision for unearned premiums		(10.3)	20.2
Change in net provision for unearned premiums		(35.0)	(64.7)
Net earned premiums	3	617.2	509.6
Net investment income	4	64.9	48.3
Other income	5	10.1	7.1
		75.0	55.4
Revenue		692.2	565.0
Insurance claims		338.6	357.0
Insurance claims recoverable from reinsurers		(31.2)	(86.3)
Net insurance claims	3	307.4	270.7
Expenses for the acquisition of insurance contracts	3	179.2	133.8
Administrative expenses	6	58.2	45.8
Foreign exchange (gain)/ loss	6	(3.1)	22.3
Operating expenses		234.3	201.9
Expenses	3	541.7	472.6
Results of operating activities		150.5	92.4
Finance costs	8	(12.0)	(5.6)
Profit before tax		138.5	86.8
Comprises			
Profit before tax and foreign exchange adjustments on non-monetary items		130.3	96.2
Foreign exchange on non-monetary items	3	8.2	(9.4)
Income tax expense	9	(38.1)	(26.9)
Profit after tax		100.4	59.9
Earnings per share (pence per share):			
Basic	10	28.1	16.7
Diluted	10	27.4	16.6

BALANCE SHEET
AS AT 31 DECEMBER 2007

		2007		2006	
	Notes	Group £m	Company £m	Group £m	Company £m
Assets					
Intangible assets	12	28 7	-	21 9	-
Plant and equipment	13	7 2	-	7 0	-
Investment in subsidiaries		-	97 9	-	65 1
Investment in associates	14	1 3	-	1 3	-
Deferred acquisition costs	15	82 0	-	78 9	-
Deferred income tax	28	4 5	-	3 5	-
Financial investments	16	1,132 3	341 8	958 4	340 0
Derivative financial instrument	25	1 2	1 2	-	-
Insurance receivables	17	199 9	-	236 1	-
Reinsurance assets	18,23	353 3	-	353 1	-
Current income tax		-	3 0	-	0 7
Other receivables		12 0	105 6	14 6	25 4
Cash and cash equivalents	19	358 3	20 9	209 4	29 8
Total assets		2,180 7	570.4	1,884.2	461 0
Equity					
Share capital	20	18 4	18 4	18 1	18 1
Reserves	21,22	223 1	224 1	225 8	230 9
Retained earnings		157 1	129 3	75 6	14 9
Total equity		398 6	371.8	319.5	263.9
Liabilities					
Insurance liabilities	23	1,471 9	-	1,225 6	-
Borrowings	24	156 7	158 8	154 9	157 0
Derivative financial instruments	25	-	-	2 4	2 4
Other payables	26	106 6	39 8	152 7	37 7
Retirement benefit obligations	27	0 9	-	1 9	-
Deferred income tax	28	34 0	-	11 6	-
Current income tax liabilities		12 0	-	15 6	-
Total liabilities		1,782.1	198.6	1,564.7	197 1
Total equity and liabilities		2,180 7	570.4	1,884.2	461 0

The financial statements were approved by the board of directors on 26 February 2008 and were signed on its behalf by

J G W Agnew, Chairman
A F Beazley, Chief Executive
D A Horton, Finance Director



STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

Group	Notes	Share capital £m	Reserves £m	Retained earnings £m	Total £m
Balance at 1 January 2006		18.0	232.1	30.3	280.4
Retained profits for the year		-	-	59.9	59.9
Change in net investment hedge		-	(0.6)	-	(0.6)
Foreign exchange translation differences		-	(2.8)	-	(2.8)
Dividends paid	11	-	-	(14.6)	(14.6)
Issue of shares	20,21	0.1	0.3	-	0.4
Equity settled share based payments	21	-	0.8	-	0.8
Acquisition of own shares in trust	21	-	(4.0)	-	(4.0)
Balance at 31 December 2006		18.1	225.8	75.6	319.5
Retained profits for the year		-	-	100.4	100.4
Change in net investment hedge		-	-	-	-
Foreign exchange translation differences		-	0.1	-	0.1
Dividends paid	11	-	-	(18.6)	(18.6)
Issue of shares	20,21	0.3	4.0	-	4.3
Equity settled share based payments	21	-	3.4	(0.3)	3.1
Acquisition of own shares in trust	21	-	(5.4)	-	(5.4)
Purchase of treasury shares	21	-	(5.1)	-	(5.1)
Transfer of shares to employees	21	-	0.3	-	0.3
Balance at 31 December 2007		18.4	223.1	157.1	398.6
Company	Notes	Share capital £m	Reserves £m	Retained earnings £m	Total £m
Balance at 1 January 2006		18.0	229.4	16.1	263.5
Retained profits for the year		-	-	13.4	13.4
Foreign exchange translation differences		-	1.3	-	1.3
Dividends paid	11	-	-	(14.6)	(14.6)
Issue of shares	20,21	0.1	0.2	-	0.3
Balance at 31 December 2006		18.1	230.9	14.9	263.9
Retained profits for the year		-	-	131.9	131.9
Dividends paid	11	-	-	(18.6)	(18.6)
Issue of shares	20,21	0.3	4.0	-	4.3
Equity settled share based payments		-	5.0	1.1	6.1
Purchase of treasury shares	21	-	(5.1)	-	(5.1)
Acquisition of own shares in trust	21	-	(11.0)	-	(11.0)
Transfer of shares to employees	21	-	0.3	-	0.3
Balance at 31 December 2007		18.4	224.1	129.3	371.8

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	2007		2006	
		Group £m	Company £m	Group £m	Company £m
Cash flow from operating activities					
Profit before tax		138.5	132.3	86.8	14.4
Adjustments for non-cash items					
Amortisation of intangibles		2.4	-	1.4	-
Equity settled share based compensation		3.1	6.2	0.8	-
Foreign exchange translation of foreign subsidiary		(1.2)	-	(4.6)	-
Net fair value losses/(gains) on financial assets		(14.3)	(4.6)	(8.8)	0.8
Depreciation of plant & equipment		1.6	-	1.2	-
Transfer of own shares in trust		-	(5.6)	-	-
Transfer of shares to employees		0.3	0.3	-	-
Changes in operating assets and liabilities					
Increase in insurance liabilities		246.4	-	129.2	-
Decrease/(increase) in insurance receivables		36.2	-	(85.1)	-
Decrease/(increase) in other receivables		2.4	(80.2)	13.9	22.9
Increase in deferred acquisition costs		(3.1)	-	(26.2)	-
Decrease/(increase) in reinsurance assets		(0.2)	-	49.2	-
Increase in other payables		(49.2)	2.0	37.6	6.5
Income tax paid		(18.7)	(2.7)	(11.5)	(3.1)
Contribution to pension fund		(1.0)	-	(1.0)	-
Acquisition of own shares in trust	21	(5.4)	(5.4)	(4.0)	-
Net cash from operating activities		337.8	42.3	178.9	41.5
Cash flow from investing activities					
Purchase of plant and equipment	13	(1.8)	-	(5.7)	-
Purchase of syndicate capacity	12	-	-	(0.2)	-
Acquisition of subsidiary (net of cash acquired)		-	-	(2.2)	-
Purchase of goodwill	12	(5.7)	-	-	-
Purchase of investments		(2,522.5)	(411.8)	(2,125.1)	(412.4)
Expenditure on software development	12	(1.7)	-	(3.1)	-
Proceeds from sale of investments		2,363.0	414.5	1,947.2	293.5
Capital injection in subsidiary		-	(32.8)	-	(33.4)
Net cash used in investing activities		(168.7)	(30.1)	(189.1)	(152.3)
Cash flow from financing activities					
Proceeds from issue of shares		4.4	4.4	0.4	0.4
Purchase of treasury shares		(5.1)	(5.1)	-	-
Repayment of syndicated loan		-	(1.8)	(18.6)	-
Proceeds from Tier 2 subordinated debt		-	-	148.1	148.1
Dividends paid	11	(18.6)	(18.6)	(14.6)	(14.6)
Net cash used in financing activities		(19.3)	(21.1)	115.3	133.9
Net increase in cash and cash equivalents		149.8	(8.9)	105.1	23.1
Cash and cash equivalents at beginning of year		209.4	29.8	112.6	6.7

Effect of exchange rate changes on cash
and cash equivalents

Cash and cash equivalents at end of year 19

(0 9)

-

(8 3)

-

358 3

20.9

209.4

29 8

NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

Beazley Group plc is a group domiciled in England and Wales. The consolidated financial statements of the group for the year ended 31 December 2007 comprise the parent company and its subsidiaries and the group's interest in associates.

Both the financial statements of the parent company, Beazley Group plc, and the consolidated financial statements of the group 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 here together with the group financial statements, the parent company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements. The following accounting policies apply to both the group and parent company unless otherwise indicated.

These consolidated financial statements have been prepared on the basis of adopted IFRSs in issue that are effective or available for early adoption at 31 December 2007. Based on these adopted IFRSs, the directors have applied the accounting policies, as set out below.

In preparing these consolidated financial statements, the group has adopted IFRS 8 "Operating Segments" prior to its required application date of 1 January 2009.

The adoption of IFRS 8 has impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the group or the parent company. In accordance with the transitional requirements of the standards, the group and the parent company have provided full comparative information.

IFRIC 11 "Group and Treasury Share Transactions" has been early adopted. This did not have an impact on the group's current treatment of recording share incentives awarded to employees as equity settled share based payment transactions of the parent company.

The following new standard and interpretation released by the International Accounting Standards Board (IASB) have not been early adopted but are expected to be of relevance to future financial years. Neither of these are expected to have any significant impact on the future consolidated financial statements of the group.

IAS 23 (amended) "Borrowing costs"

IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

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 consolidated financial statements are prepared using the historical cost convention except that derivative financial instruments are stated at their fair value. All amounts presented are stated in sterling and millions, unless noted otherwise.

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 notes 2 and 23 (on risk management, insurance liabilities and reinsurance assets).

Consolidation

a) *Subsidiary undertakings*

Subsidiary undertakings, which are those entities in 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 ceases.

The group has used the purchase method of accounting for the acquisition of subsidiaries. Under purchase accounting, the cost of acquisition is measured as the fair value of assets given, shares issued or liabilities undertaken at the date of acquisition plus costs 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.

Financial investments made by the parent company in group undertakings are stated at cost 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 a syndicate managed by Beazley Furlong Limited. In view of the several liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable share of transactions, assets and liabilities of that syndicate has been included in the 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 group's share of post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements is recognised in reserves. The cumulative post-acquisition movements 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 have been eliminated. 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 consolidated financial statements are presented in sterling, which is the group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to this period and which the group considers 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 income statement. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

c) Group companies

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

- assets and liabilities are translated at the closing rate ruling at the balance sheet date,
- income and expenses for each income statement are translated at average exchange rates for the reporting period, and
- all resulting exchange differences are recognised as a separate component of equity.

The exchange differences on disposal of foreign entities are recognised in the income statement 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 an insurer 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.

Financial guarantees provided by the parent company to subsidiaries are treated as insurance contracts under IFRS 4

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 balance sheet 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.

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 balance sheet date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of DAC. 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 income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ("unexpired risk provision").

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.

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 income statement.

Revenue

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

Profit commissions and managing agent's fees are recognised as the services are provided.

Dividends paid

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

Plant and equipment

All plant and equipment is recorded at cost less accumulated depreciation. 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 balance sheet date and adjusted if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstance 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 income statement.

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 for the purpose of impairment testing. Goodwill is impaired when the net present value of the forecast future cash flows is insufficient to support its carrying value. On transition to IFRS at 1 January 2004, any goodwill previously amortised or written off was not reinstated.

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 balance sheet. 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 Syndicate 2623 and provision is made for any impairment.

c) Licences

Licences are shown at historical cost. They have an indefinite useful life and are carried at cost less accumulated impairment. Licences are annually tested for impairment and provision is made for any impairment when the net present value of future cash flows is less than the carrying value.

d) IT development costs

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

Financial instruments

Financial instruments are recognised in the balance sheet at such time that the group 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 group'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 group 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 group 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 group does not make use of the held to maturity and available for sale classifications.

Financial assets at fair value through income statement

This category has two sub-categories: financial assets held for trading and those designated at fair value through the income statement at inception.

Trading assets are those assets which are acquired principally for the purpose of selling in the short term, or which are held as part of a portfolio in which there is evidence of short-term profit taking or if it is designated so by management. Derivatives are classified as held for trading unless they are designated as hedges.

A financial asset is designated as fair value through the income statement upon initial recognition if it is managed and its 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.

Upon initial recognition, attributable transaction costs 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.

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. These 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 provision for impairments. Insurance payables are stated at amortised cost.

Other receivables

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

Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses on financial assets at fair value through the income statement. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest is recognised on an accruals basis for financial assets at fair value through the income statement. Realised gains or losses on disposal of an investment is the difference between the proceeds and the carrying value of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the balance sheet date, and the carrying value at the previous period end or purchase value during the period.

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 payable, fees paid for the arrangement of debt and letter of credit facility and commissions charged for the utilisation of letters of credit. These costs are recognised in the income statements using an effective interest method.

Other payables

Other payables are stated at amortised cost.

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 re-measured 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 group designates certain derivatives as cash flow hedges or net investment hedges.

The group 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 group 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) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement within "net fair value gains/(losses) on derivative financial instruments".

If the derivative expires or is sold, terminated, exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects the income statement. If the forecast transaction is no longer expected to occur, then the hedge accounting is discontinued and the balance in equity is recognised immediately in the income statement.

b) 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.

c) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity, 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 equity are included in the income statement on disposal of the foreign operation.

Impairment of financial assets

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets 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 or group of financial assets that can be reliably estimated.

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. The amount of the loss is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, bank overdrafts and other short-term highly liquid investments with maturities of three months or less from the date of acquisition.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made for operating leases are charged to the income statement 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 income statement 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 pension obligation is measured at present value of the estimated future net cash flows and is stated net of plan assets.

Actuarial gains or losses arising subsequent to 1 January 2004 are accounted for using the 'corridor method'. Actuarial gains or losses that exceed 10 per cent of the greater of the fair value of the plan assets or the present value of the gross defined benefit obligations in the scheme are recognised in the income statement over the average remaining working lives of employees participating in the scheme.

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 income statement in the period to which they relate.

b) Share-based compensation

The group offers option plans over the group's ordinary shares to certain employees, including the SAYE scheme, details of which are included in the directors' remuneration report.

The group accounts for share compensation plans that were granted after 7 November 2002. The cost of providing share-based compensation is based on the fair value of the share options at grant date, which is recognised in the income statement over the expected service period of the related employees and a corresponding entry in reserves. The fair value of the share options is determined using the Black Scholes method.

When the options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

Income taxes

Income tax on the profit or loss for the period presented 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 balance sheet 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 balance sheet date.

Deferred tax assets are recognised in the balance sheet 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.

The shares held in the employee share options plan (ESOP) have been 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 if 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 six areas: insurance, credit, market, liquidity, operational and group risk. The sections below outline the group's risk appetite and explain how it defines and manages each category of risk. Risk is managed on a group wide basis and therefore disclosure is not provided separately for the ultimate parent.

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, reserving and ultimate reserves. Each element is considered below.

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the group:

- 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,
- Cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions, and
- Expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

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 in which business is to be written and the industry sectors to which the group is prepared to expose itself. 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 aggregation 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 include natural catastrophes, marine, liability, political, terrorism and war events

One of the largest types of event exposure relates to natural catastrophe events such as flood damage, 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 probable maximum loss (PML) 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 Currently, the group operates to catastrophe risk appetite for a probabilistic 1 in 250 year US event of US\$340m net of reinsurance

Lloyd's has also defined its own specific set of RDS events for which all syndicates with relevant exposures must report The group's three largest Lloyd's specified natural catastrophe stress events are

Lloyd's prescribed natural catastrophe event	2007		2006	
	Modelled PML (before reinsurance) US\$m	Modelled PML (after reinsurance) US\$m	Modelled PML (before reinsurance) US\$m	Modelled PML (after reinsurance) US\$m
San Francisco quake (US\$69bn, 2006 US\$65bn)	447.2	188.3	384.4	161.4
Gulf of Mexico windstorm (US\$108bn, 2006 US\$100bn)	413.3	202.9	336.3	149.9
Florida Pinellas windstorm (US\$106bn, 2006 US\$100bn)	359.6	186.4	331.8	190.1

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

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 2007, the normal maximum gross PML line that any one underwriter could commit the managed syndicates to was US\$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

Terms and conditions of insurance risks

The group's business is structured as a confederation of four independent business segments utilising the same capital base and central services The group has recognised risk features specific to the main insurance products offered by the group, and these are explained below

Specialty lines

This segment mainly underwrites professional lines, employment practices liability, specialty liability, political risk, directors' and officers' liability, healthcare, stand-alone terrorism and contingency Whilst most of this business is domiciled in the US, the team writes business all over the world and also has a physical presence in the UK, continental Europe and the Far East

Our liability insurance is considered medium tail because claims in this class typically take three to nine years before they are fully assessed and paid by the group for a given accident year. The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction and any policy provisions applied such as self-insured retentions. Other inherent uncertainties encountered through this class include

- Whether the "event" triggering coverage is confined to only one-time period or is spread over multiple-time periods,
- The potential financial costs arising from individual claim actions,
- Whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written, and
- The potential for mass claim actions

Property

Our property segment underwrites commercial, high-value homeowners and engineering property insurance on a worldwide basis. Property insurance indemnifies, subject to any limits or deductibles, the policyholder against loss or damage to their own material property and business interruption arising from this damage. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. The claim will thus be notified promptly and can be settled without delay (an exception to this is subsidence claims).

Significant geographical concentrations of risk can exist within property portfolios meaning that natural perils such as adverse windstorms or earthquakes may expose large segments of the group's property risks. In the event of an earthquake, the property portfolio expects to receive claims for both structural damage and business interruption.

Marine

This segment underwrites a broad spectrum of marine classes. Specialist cover includes hull, energy, cargo & specie and war risks, and the majority of these risks are exposed to catastrophes. For example, a significant portion of the energy business is exposed to Gulf of Mexico events and thus has substantial hurricane exposure.

Some areas of the marine business overlap with other segments which can result in loss accumulations. These accumulations, including exposures to catastrophes, are regularly monitored and managed by our reinsurance programmes.

Reinsurance

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

The two primary risks in this business are

- The risk that a catastrophe event does or does not occur, and
- That future catastrophe experience may turn out to be inconsistent with the assumptions used in the industry-wide pricing models, causing claims experience to be higher than expected.

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.

In 2007, the group bought a combination of proportional and non-proportional reinsurance treaties and facultative reinsurance to reduce the maximum net exposure on any one risk for the managed syndicates to US\$30m. In most classes of business the maximum net exposure per risk is much lower than this. The group aims to establish appropriate retention levels and limits of protection to achieve the target rate of return and remain within the board's risk tolerance limits. The efficacy of protection sought is assessed against the cost of reinsurance, taking into consideration current and expected market conditions.

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, 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 experienced 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, actuarial, claims, and finance representatives

2.2 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 intermediaries – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group, and
- Investments – whereby issuer default results in the group losing all or part of the value of a financial instrument

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

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 significant concentrations of credit risk

	Tier 1 £m	Tier 2 £m	Tier 3 £m	Unrated £m	Total £m
31 December 2007					
Financial investments	907.0	85.8	6.9	132.6	1,132.3
Insurance receivables	-	-	-	199.9	199.9
Reinsurance assets	343.3	-	-	10.0	353.3
Cash and cash equivalents	358.3	-	-	-	358.3
Total	1,608.6	85.8	6.9	342.5	2,043.8

31 December 2006	Tier 1 £m	Tier 2 £m	Tier 3 £m	Unrated £m	Total £m
Financial investments	788.7	64.6	5.2	99.9	958.4
Insurance receivables	-	-	-	236.2	236.2
Reinsurance assets	327.7	5.0	-	20.4	353.1
Cash and cash equivalents	209.4	-	-	-	209.4
Total	1,325.8	69.6	5.2	356.5	1,757.1

The carrying amount of financial assets at the balance sheet date represents the maximum credit exposure

The group has insurance receivables that are past due but not impaired at the reporting date. The group believes that impairment of these receivables is not appropriate on the basis of stage of collection of amounts owed. An aged analysis of insurance receivables that are past due but not impaired is presented below.

Premium debtors*	Not yet due	Up to 30 days	30 – 60 days	60 – 90 days	Greater than 90 days	Total
31 December 2007	72%	18%	4%	2%	4%	100%
31 December 2006	70%	20%	5%	1%	4%	100%

*This analysis excludes binder and treaty reinsurance receivables

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets, insurance receivables and other debtors that are impaired at the reporting date. Reinsurance assets that are individually impaired at 31 December 2007 total £5.7m (2006 £4.8m).

These assets have been individually impaired after considering information such as the occurrence of significant changes in the counterparty's financial position, pattern of historical payment information and disputes with counterparties.

The group has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the RSC, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

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.

2.3 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. This means that the group maintains sufficient liquid assets, or assets that can be translated 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 24.

The following is an analysis by business segment of the estimated timing of the net cash flows based on the claims liabilities balance held at 31 December 2007.

	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
31 December 2007						
Specialty lines	22%	41%	26%	11%	100%	2.6
Property	53%	38%	7%	2%	100%	1.3
Reinsurance	45%	44%	10%	1%	100%	1.5
Marine	44%	42%	13%	1%	100%	1.6

	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
31 December 2006						
Specialty lines	20%	40%	27%	13%	100%	2.7
Property	53%	38%	7%	2%	100%	1.4
Reinsurance	48%	40%	12%	-	100%	1.5
Marine	41%	43%	15%	1%	100%	1.6

2.4 Market risk

Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates, interest rates and market prices. Note that this section contains sensitivity analysis which is aimed at showing what the financial impact of a change in prevailing market rates and conditions would be. While risk can have both 'upside' and 'downside' potential, the sensitivity analysis provided is for adverse changes to conditions only. The sensitivity analysis has been applied as at the balance sheet date.

Foreign exchange risk

The group is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The group deals in four main currencies, US dollars, UK sterling, Canadian dollars and Euros. Transactions in all other currencies are converted to UK sterling on initial recognition and revalued at the balance sheet date.

The group manages foreign exchange exposure by projecting forward its US dollar profits for each calendar year and selling one twelfth of the expected amount each month. The amounts sold are periodically validated against actual exposure and additional "top up" trades of US dollars are made if required. The foreign exchange exposure to Canadian dollars and Euros are closely monitored by the group and a similar approach will be taken to manage the risk as our exposure grows in the future.

The group also has investment in foreign subsidiaries with functional currencies that are different from the presentational currency. This gives rise to a currency translation exposure to US dollars, Hong Kong dollars and Singapore dollars, although the exposures to Hong Kong dollars and Singapore dollars are minimal. The US dollar translation exposure is managed by borrowing funds denominated in the same currency.

The following table summarises the carrying value of total assets and total liabilities categorised by currency.

	US \$ £m	CAD \$ £m	EUR € £m	Subtotal £m	UK £ £m	Total £m
31 December 2007						
Total assets	1,438.5	72.8	144.3	1,655.6	525.1	2,180.7
Total liabilities	(1,370.7)	(58.4)	(125.1)	(1,554.2)	(227.9)	(1,782.1)
	67.8	14.4	19.2	101.4	297.2	398.6
31 December 2006						
Total assets	1,035.8	49.1	85.8	1,170.7	713.5	1,884.2
Total liabilities	(985.0)	(36.0)	(68.3)	(1,089.3)	(475.4)	(1,564.7)
	50.8	13.1	17.5	81.4	238.1	319.5

The net assets have been stated net of the cross-currency swap as explained in note 24

Sensitivity analysis

If the US dollar, Canadian dollar and Euro weakened against the UK sterling by 10%, with all other variables constant, pre-tax profit would have been lower by an estimated £18.5m (2006 £12.4m) and net assets would have decreased by an estimated £18.0m (2006 £10.8m). The analysis is based on the current information available and our assumptions in performing this analysis are

- the closing year end spot rates and the average rates throughout the year were 10% higher,
- the analysis includes an estimate of the impact on our foreign borrowings and cross currency swaps, and
- the impact of foreign exchange on non-monetary items will be nil

Interest rate risk

Some of the group's financial instruments, including financial investments, 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 investments and cash and cash equivalents. The investment committee monitors the duration of these assets on a regular basis

The following table 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

Duration

	<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
31 December 2007								
Debt securities	583.9	183.7	95.8	78.5	53.5	11.1	-	1,006.5
Cash and cash equivalents	358.3	-	-	-	-	-	-	358.3
Derivative financial instruments	-	-	-	-	-	1.2	-	1.2
Borrowings	-	-	-	-	-	(147.7)	(9.0)	(156.7)
Total	942.2	183.7	95.8	78.5	53.5	(135.4)	(9.0)	1,209.3
31 December 2006								
Debt securities	568.0	190.8	69.1	26.2	12.6	0.7	-	867.4
Cash and cash equivalents	209.4	-	-	-	-	-	-	209.4
Derivative financial statements	-	-	-	-	-	(2.4)	-	(2.4)
Borrowings	-	-	-	-	-	(145.7)	(9.2)	(154.9)
Total	777.4	190.8	69.1	26.2	12.6	(147.4)	(9.2)	919.5

The next two tables summarise the carrying amount of financial instruments exposed to interest rate risk by maturity at balance sheet date.

Maturity

	<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
31 December 2007								
Debt securities	388.9	209.2	75.0	75.1	99.0	77.7	81.6	1,006.5
Cash and cash equivalents	358.3	-	-	-	-	-	-	358.3
Derivative financial instruments	-	-	-	-	-	1.2	-	1.2
Borrowings	-	-	-	-	-	(147.7)	(9.0)	(156.7)
Total	747.2	209.2	75.0	75.1	99.0	(68.8)	72.6	1,209.3

31 December 2006	<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	522.1	229.3	61.8	27.1	23.4	1.1	2.6	867.4
Cash and cash equivalents	209.4	-	-	-	-	-	-	209.4
Derivative financial instruments	-	-	-	-	-	(2.4)	-	(2.4)
Borrowings	-	-	-	-	-	(145.7)	(9.2)	(154.9)
Total	731.5	229.3	61.8	27.1	23.4	(147.0)	(6.6)	919.5

The group makes interest payments for borrowings and derivative financial instruments. Further details are provided in notes 24 and 25.

Sensitivity analysis

The group holds financial assets and liabilities that are exposed to interest rate risk. An increase in 100 basis points in interest yields, with all other variables constant, would result in a loss of capital on debt securities and a change in value of borrowings and derivative financial instruments. This will decrease pre-tax profits for the period by an estimated £13.8m (2006: £10.7m) and net assets would have decreased by an estimated £9.7m (2006: £7.5m).

Price risk

The equity securities and hedge funds that are recognised on the balance sheet 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 equities and hedge funds depending on the group's appetite for risk. These investments are well diversified with high quality, liquid securities. The investment committee has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the group has established fair value using valuation techniques. This includes using recent arm's length market transactions, 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.

Sensitivity analysis

At 31 December 2007, the fair value of hedge funds recognised on the balance sheet was £71.1m (2006: £50.3m). If the fair value of the group's hedge fund portfolio were to fall by 10%, then the overall pre-tax impact on net assets would be a decline of £7.1m (2006: £5.0m).

At 31 December 2007, the fair value of equities recognised on the balance sheet was £54.7m (2006: £40.7m). These equities are listed on various global stock exchanges and a 10% fall in the global equity market will result in a pre-tax impact on net assets of £5.5m (2006: £4.1m).

2.5 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events.

There are a number of business activities for which the group uses the services of a third party company, such as investment management, data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

The group also recognises that it is necessary for people, systems and infrastructure to be available to support our operations. Therefore we have taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. We operate a formal disaster recovery plan which, in the event of an incident, allows the group to move critical operations to an alternative location within 24 hours.

The group actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The group also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of the group's operational control environment include

- 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

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 three main components of group risk which are explained below.

Strategic

This is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy. There is no tolerance for any breach of guidance issued by the board, and where events supersede the group strategic plan this is escalated at the earliest opportunity through the group's monitoring tools and governance structure.

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 and Asia. 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.

Management stretch

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 and Asia, management stretch may make the identification, analysis and control of group risks more complex.

On a day-to-day basis, the group's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioral 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.

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 as set out on page 83.

RISK	Risk type	Sources	Importance to group capital requirements
	Insurance	Underwriting Reinsurance Claims management Reserving & ultimate reserves	Dominant
	Credit	Reinsurers Brokers & intermediaries Investments	Material
	Liquidity	Insurance & non-insurance cash calls	Low
	Market	Foreign exchange Interest rates Investment prices	Material
	Operational	People Process and systems Regulation	Moderate

	Service provider Business continuity Information security Financial reporting Data integrity Legal	
Group	Strategic Reputation Management stretch	Moderate

Insurance risk is our biggest risk, and includes both catastrophe and non-catastrophe exposures. To manage these exposures we model aggregate risks and the likely financial impact to the group for defined events.

To manage our underwriting, we assign maximum gross and net line sizes for all underwriters. This limit is adjusted according to the nature of the business being underwritten and the experience of the underwriter and cannot be exceeded unless appropriately authorised. To ensure that our decisions are robust, there is a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters.

Reserving activities are rigorously controlled to ensure adequate reserves are set. A quarterly peer review process exists for the underwriting teams and group actuary to independently determine required movements.

3 Segmental analysis

Segment information is presented in respect of reportable segments. This is based on the group's management and internal reporting structures and represents 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 in note 2.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Foreign exchange differences on non-monetary items have been left unallocated. This has been separately disclosed as it provides a fairer representation of the loss ratios, which would otherwise be distorted by the mismatch arising under IFRSs whereby unearned premium reserve, reinsurers share of unearned premium reserve and DAC are treated as non-monetary items and claims reserves are treated as monetary items. Non-monetary items are carried at historic exchange rates, while monetary items are translated at closing rates. This imbalance creates volatility in our accounts which cannot be hedged as the mismatch is not monetary in nature.

Finance costs and taxation have not been allocated to operating segments as these items are determined by entity level factors and do not relate to operating performance.

	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Total reportable segments £m	Unallocated £m	Total £m
2007							
Segment results							
Gross premiums written	394.9	188.0	57.8	139.8	780.5	-	780.5
Net premiums written	326.2	157.4	49.6	119.0	652.2	-	652.2
Net earned premiums	286.5	158.0	45.9	116.1	606.5	10.7	617.2
Net investment income	43.2	8.6	7.1	6.0	64.9	-	64.9
Other income	5.1	2.1	1.3	1.6	10.1	-	10.1
Revenue	334.8	168.7	54.3	123.7	681.5	10.7	692.2
Net insurance claims	169.4	76.6	16.2	45.2	307.4	-	307.4
Expenses for the acquisition of insurance contracts	76.2	56.3	10.1	33.6	176.2	3.0	179.2
Administrative expenses	32.3	13.7	3.9	8.3	58.2	-	58.2
Foreign exchange (gain)/ loss	(1.0)	(0.4)	(0.5)	(0.7)	(2.6)	(0.5)	(3.1)

Expenses	276.9	146.2	29.7	86.4	539.2	2.5	541.7
Segments result	57.9	22.5	24.6	37.3	142.3	8.2	150.5
Finance costs							(12.0)
Profit before tax							138.5
Income tax expense							(38.1)
Profit after tax							100.4
Claims ratio	59%	48%	35%	39%	51%	-	50%
Expense ratio	38%	44%	31%	36%	39%	-	38%
Combined ratio	97%	92%	66%	75%	90%	-	88%

Segment assets and liabilities

Segment assets	1,461.3	348.0	106.8	263.1	2,179.2	1.5	2,180.7
Segment liabilities	(1,260.5)	(278.2)	(56.5)	(186.9)	(1,782.1)	-	(1,782.1)
Net assets	200.8	69.8	50.3	76.2	397.1	1.5	398.6

Additional information

Capital expenditure	9.4	0.8	0.3	0.6	-	-	11.1
Depreciation	2.0	1.0	0.3	0.7	-	-	4.0
Net cash flow	50.6	48.7	8.5	41.1	-	-	148.9

	Specialty lines £m	Property £m	Reinsurance £m	Manne £m	Total reportable segments £m	Unallocated £m	Total £m
2006							
Segment results							
Gross premiums written	361.0	187.8	58.4	137.9	745.1	-	745.1
Net premiums written	267.3	149.9	40.5	116.6	574.3	-	574.3
Net earned premiums	234.6	123.1	42.1	101.5	501.3	8.3	509.6
Net investment income	35.9	4.2	4.1	4.1	48.3	-	48.3
Other income	4.0	1.3	0.7	1.1	7.1	-	7.1
Revenue	274.5	128.6	46.9	106.7	556.7	8.3	565.0
Net insurance claims	146.3	66.3	13.7	44.4	270.7	-	270.7
Expenses for the acquisition of insurance contracts	54.0	40.8	10.3	28.6	133.7	0.1	133.8
Administrative expenses	24.1	11.9	4.4	5.4	45.8	-	45.8
Foreign exchange (gain)/ loss	2.2	1.2	0.4	0.9	4.7	17.6	22.3
Expenses	226.6	120.2	28.8	79.3	454.9	17.7	472.6
Segments result	47.9	8.4	18.1	27.4	101.8	(9.4)	92.4
Finance costs							(5.6)
Profit before tax							86.8
Income tax expense							(26.9)
Profit after tax							59.9
Claims ratio	62%	54%	33%	44%	54%	-	53%
Expense ratio	33%	43%	35%	34%	36%	-	35%
Combined ratio	95%	97%	68%	78%	90%	-	88%

Segment assets and liabilities

Segment assets	995.9	338.9	218.6	330.7	1,884.1	0.1	1,884.2
Segment liabilities	(823.4)	(280.3)	(180.8)	(273.4)	(1,557.9)	(6.8)	(1,564.7)
Net assets	172.5	58.6	37.8	57.3	326.2	(6.7)	319.5

Additional information

Capital expenditure	5.7	3.0	1.0	2.3	12.0	-	12.0
Depreciation	0.7	0.3	0.1	0.3	1.4	-	1.4
Net cash flow	64.7	17.0	8.9	14.5	105.1	-	105.1

b) Secondary reporting segment – geographical segments

The group's four business segments are managed geographically by placement of risk, i.e. Lloyd's and non-Lloyd's

	2007 £m	2006 £m
Net earned premiums		
Lloyd's	609.4	507.1
Non-Lloyd's	7.8	2.5
	617.2	509.6

	2007 £m	2006 £m
Segment assets		
Lloyd's	2,035.4	1,810.5
Non-Lloyd's	145.3	73.7
	2,180.7	1,884.2

Segment assets are allocated based on where the assets are located

Capital expenditure

Lloyd's	9.7	10.6
Non-Lloyd's	1.4	1.4
	11.1	12.0

4 Net investment income

	2007 £m	2006 £m
Investment income at fair value through income statement		
- Interest income	53.1	28.0
Realised gains/(losses) on financial investments at fair value through income statement		
- Realised gains	18.9	22.9
- Realised losses	(11.5)	(9.9)
Net fair value gains/(losses) on financial investments through income statement		
- Fair value gains	22.9	24.4
- Fair value losses	(16.0)	(15.6)
Investment management expenses	(2.5)	(1.5)
	64.9	48.3

5 Other income

	2007 £m	2006 £m
Profit commissions	7.6	5.5
Agency fees	1.0	1.1
Other income	1.5	0.5
	10.1	7.1

6 Operating expenses

	2007 £m	2006 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	0.2	0.2
Fees payable to the company's auditor and its associates for other services		
- Audit of the company's subsidiaries	0.1	0.1
- Tax services	0.1	0.1
- other services	0.2	0.1
Operating leases	2.0	2.0
Foreign exchange (gain)/ loss – excluding foreign exchange on non-monetary items	(2.6)	4.7

7 Employee benefit expenses

	2007		2006	
	Group £m	Company £m	Group £m	Company £m
Wages and salaries	30.7	0.3	28.4	0.3
Short-term incentive payments	19.6	-	11.4	-
Social security	3.8	-	3.2	-
Share-based remunerations	3.0	-	1.3	-
Pension costs	3.9	-	3.9	-
	61.0	0.3	48.2	0.3
Recharged to syndicate 623	(7.0)	-	(7.8)	-
	54.0	0.3	40.4	0.3

Further information on employees is provided on page xxx [ref employee numbers in financial review]

8 Finance costs

	2007 £m	2006 £m
Interest expense	11.8	5.5
Arrangement fees	0.2	0.1
	12.0	5.6

9 Income tax expense

	2007 £m	2006 £m
Current tax expense		
Current year	20.2	21.4
Prior year adjustments	(2.1)	1.4
	18.1	22.8
Deferred tax expense		
Origination and reversal of temporary differences	19.2	5.6
Prior year adjustments	0.8	(1.5)
	20.0	4.1
Income tax expense	38.1	26.9
Profit before tax	138.5	86.8

Tax calculated at UK tax rates	39.9	26.0
Effects of		
- Tax rates in foreign jurisdictions	0.5	0.6
- Non-deductible expenses	0.2	0.2
- Deductible items for which no deferred tax asset is recognised	(1.2)	-
- Under/(over) provided in prior years	(1.3)	0.1
Tax charge for the period	38.1	26.9

The weighted average applicable tax rate was 28.3% (2006 30%)

The effect of the change in the UK corporation tax rate from 30% to 28% with effect from 1 April 2008 on deferred tax recognised in prior periods is a gain in the 2007 income statement of £0.1m

10 Earnings per share

	2007	2006
Basic	28.1p	16.7p
Diluted	27.4p	16.6p

Basic

Basic earnings per share are calculated by dividing profit after tax of £100.4m (2006 £59.9m) by the weighted average number of issued shares during the year of 357.4m (2006 357.9m). The shares held in the Employee Share Options Plan (ESOP) have been excluded from the calculation, until such time as they vest unconditionally with the employees. In addition, the treasury shares have been excluded from the calculation.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of £100.4m (2006 £59.9m) by the adjusted weighted average number of shares of 366.0m (2006 361.5m). 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 have been excluded from the calculation, until such time as they vest unconditionally with the employees. In addition, the treasury shares have been excluded from the calculation.

11 Dividends per share

The final dividend of 4.0p (2006 3.2p) per ordinary share and the special dividend of 4.0p per share, will be payable on 9 May 2008 to shareholders registered on 18 April 2008 in respect of the year ended 31 December 2007. Together with the interim dividend of 2.0p (2006 1.6p) this brings the total ordinary dividend to 6.0p (2006 4.8p). The total dividend payable for the year is 10.0p per ordinary share. These financial statements do not provide for the final dividend as a liability.

12 Intangible assets

	Goodwill £m	Syndicate capacity £m	Licences £m	IT development costs £m	Total £m
Cost					
Balance at 1 January 2006	6.0	3.7	5.2	3.6	18.5
Acquisition of subsidiary	1.9	0.7	-	-	2.6
Additions	-	-	-	3.7	3.7
Amounts written off	-	-	-	(0.8)	(0.8)
Foreign exchange	-	-	(0.6)	-	(0.6)
Balance at 31 December 2006	7.9	4.4	4.6	6.5	23.4
Balance at 1 January 2007	7.9	4.4	4.6	6.5	23.4

Acquisition of business portfolio	7.6	-	-	-	7.6
Additions	-	-	-	1.7	1.7
Amounts written off	-	-	-	(0.2)	(0.2)
Balance at 31 December 2007	15.5	4.4	4.6	8.0	32.5
Amortisation					
Balance at 1 January 2006				0.3	0.3
Amounts written off during the year				(0.2)	(0.2)
Amortisation for the year				1.4	1.4
Balance at 31 December 2006				1.5	1.5
Balance at 1 January 2007				1.5	1.5
Amounts written off during the year				(0.1)	(0.1)
Amortisation for the year				2.4	2.4
Balance at 31 December 2007				3.8	3.8
Carrying amount					
31 December 2007	15.5	4.4	4.6	4.2	28.7
31 December 2006	7.9	4.4	4.6	5.0	21.9

Impairment tests

Goodwill, syndicate capacity and licences are deemed to have indefinite life. Consequently, they are not amortised but annually tested for impairment. They are allocated to the group's cash generating units (CGUs) as follows:

	2007		2006	
	Lloyd's £m	Non-Lloyd's £m	Lloyd's £m	Non-Lloyd's £m
Goodwill	15.5	-	7.9	-
Syndicate capacity	4.4	-	4.4	-
Licences	-	4.6	-	4.6

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 three-year period. Cash flows beyond a three-year period are extrapolated using an estimated growth rate of 2% (2006: 2%). This growth rate is consistent with the long-term average growth rate for the industry. A pre-tax discount rate of 8% (2006: 8%) has been used to discount the projected cash flows.

The split of Lloyd's / Non-Lloyd's business is the most appropriate level at which these intangible assets can be allocated since the assets were purchased in respect of future revenue streams to the Lloyd's syndicates and the US admitted insurance company (Non-Lloyd's).

13 Plant and equipment

	Fixtures & fittings £m	Computer equipment £m	Total £m
Cost			
Balance at 1 January 2006	2.4	0.1	2.5
Additions	4.9	0.8	5.7
Balance at 31 December 2006	7.3	0.9	8.2

Balance at 1 January 2007	7.3	0.9	8.2
Additions	0.9	0.9	1.8
Balance at 31 December 2007	8.2	1.8	10.0
Accumulated depreciation			
Balance at 1 January 2006	-	-	-
Depreciation charge for the year	(1.0)	(0.2)	(1.2)
Balance at 31 December 2006	(1.0)	(0.2)	(1.2)
Balance at 1 January 2007	(1.0)	(0.2)	(1.2)
Depreciation charge for the year	(1.2)	(0.4)	(1.6)
Balance at 31 December 2007	(2.2)	(0.6)	(2.8)
Carrying amounts			
31 December 2007	6.0	1.2	7.2
31 December 2006	6.3	0.7	7.0

14 Investment in associates

The group has the following interests in associates

	Country	Ownership	
		2007	2006
Beazley Finance Limited	UK	22.7%	22.7%
Beazley Dedicated Limited*	UK	22.7%	22.7%

Summary financial information – 100%

	Assets £m	Liabilities £m	Equity £m	Profit £m
2007				
Beazley Finance Limited	0.4	(0.5)	(0.1)	-
Beazley Dedicated Limited*	3.5	(0.9)	2.6	-
	3.9	(1.4)	2.5	-
2006				
Beazley Finance Limited	0.2	(0.2)	-	0.1
Beazley Dedicated Limited*	2.6	-	2.6	-
	2.8	(0.2)	2.6	0.1

* This is an indirect holding of the Group as described below

Beazley Furlonge Holdings Limited owns 5,000,000 ordinary shares in Beazley Finance Limited, the holding company of Beazley Dedicated Limited, a dedicated corporate member of syndicate 623. This shareholding represents 22.7% of the entire share capital of Beazley Finance Limited. Beazley Furlonge Holdings Limited has guaranteed a letter of credit of £2.0m to support underwriting of Beazley Dedicated Limited on syndicate 623. The proportion of profits receivable by the group is determined by agreement between AON (the majority shareholder in Beazley Finance Limited) and the group and varies by year of account.

Beazley Dedicated Limited participated in syndicate 623 for all years of account up to 2002. Reflected in these accounts are the results for the 2002 year of account together with the results of Beazley Finance Limited to 31 December 2007.

15 Deferred acquisition costs

	2007 £m	2006 £m
Balance at 1 January	78.9	52.7
Additions	182.3	160.0
Amortisation charge	(179.2)	(133.8)
Balance at 31 December	82.0	78.9

16 Financial investments

	2007		2006	
	Group £m	Company £m	Group £m	Company £m
Financial investments at fair value through profit and loss				
Equity securities-listed	54.7	-	40.7	-
Hedge funds	71.1	-	50.3	-
Debt securities				
- Fixed interest	778.4	298.1	672.3	287.2
- Floating interest	228.1	43.7	195.1	52.8
Total financial investments at fair value through profit and loss	1,132.3	341.8	958.4	340.0
Current	483.8	192.8	538.8	297.0
Non-current	648.5	149.0	419.6	43.0
	1,132.3	341.8	958.4	340.0

The group has given a fixed and floating charge over 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.

17 Insurance receivables

	2007 £m	2006 £m
Insurance receivables	199.9	236.1
	199.9	236.1

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are designated as loans and receivables.

18 Reinsurance assets

	2007 £m	2006 £m
Reinsurers' share of claims	286.1	274.7

Impairment provision	(5.7)	(4.8)
	280.4	269.9
Reinsurers' share of unearned premium reserve	72.9	83.2
	353.3	353.1

Further analysis of the reinsurance asset is provided in note 23

19 Cash and cash equivalents

	2007		2006	
	Group £m	Company £m	Group £m	Company £m
Cash at bank and in hand	39.5	0.6	16.3	0.6
Short-term deposits	245.8	20.3	131.7	29.2
Overseas deposits	73.0	-	61.4	-
Cash and cash equivalents	358.3	20.9	209.4	29.8

20 Share capital

	2007		2006	
	No of shares (m)	£m	No of shares (m)	£m
Ordinary shares of 5p each				
Authorised	450.0	22.5	450.0	22.5
Issued and fully paid	367.1	18.4	361.0	18.1
Balance at 1 January	361.0	18.1	360.6	18.0
Issue of shares	6.1	0.3	0.4	0.1
Balance at 31 December	367.1	18.4	361.0	18.1

21 Reserves

Group	Share premium £m	Merger reserve £m	Foreign currency translatio n reserve £m	Employee share options reserve £m	Treasury shares £m	Employee share trust reserve £m	Total £m
Balance at 1 January 2006	230.5	1.6	0.8	0.8	-	(1.6)	232.1
Issue of shares	0.3	-	-	-	-	-	0.3
Share based payments	-	-	-	0.8	-	-	0.8
Acquisition of own shares held in trust	-	-	-	-	-	(4.0)	(4.0)
Change in net investment hedge	-	-	(0.6)	-	-	-	(0.6)
Foreign exchange translation differences	-	-	(2.8)	-	-	-	(2.8)
Balance at 31 December 2006	230.8	1.6	(2.6)	1.6	-	(5.6)	225.8
Issue of shares	4.0	-	-	-	-	-	4.0
Share based payments	-	-	-	3.4	-	-	3.4
Acquisition of own shares held in trust	-	-	-	-	-	(5.4)	(5.4)

Purchase of treasury shares	-	-	-	-	(5.1)	-	(5.1)
Foreign exchange translation differences	-	-	0.1	-	-	-	0.1
Transfer of shares to employees	-	-	-	-	-	0.3	0.3
Balance at 31 December 2007	234.8	1.6	(2.5)	5.0	(5.1)	(10.7)	223.1

The above movements in reserves are stated net of any related taxation

Company	Share premium £m	Merger reserve £m	Foreign currency translation reserve £m	Employee share options reserve £m	Treasury shares £m	Employee share trust reserve £m	Total £m
Balance at 1 January 2006	230.5	-	(1.1)	-	-	-	229.4
Issue of shares	0.3	-	-	-	-	-	0.3
Foreign exchange translation differences	-	-	1.2	-	-	-	1.2
Balance at 31 December 2006	230.8	-	0.1	-	-	-	230.9
Issue of shares	4.0	-	-	-	-	-	4.0
Share based payments	-	-	-	5.0	-	-	5.0
Purchase of treasury shares	-	-	-	-	(5.1)	-	(5.1)
Acquisition of own shares held in trust	-	-	-	-	-	(11.0)	(11.0)
Transfer of shares to employees	-	-	-	-	-	0.3	0.3
Balance at 31 December 2007	234.8	-	0.1	5.0	(5.1)	(10.7)	224.1

22 Equity compensation plans

22.1 Employee share trust

	2007		2006	
	Number (m)	£m	Number (m)	£m
Costs debited to employee share trust reserve				
Balance at 1 January	5.2	5.6	1.9	1.6
Additions	3.5	5.4	3.3	4.0
Transfer of shares to employees	(0.3)	(0.3)	-	-
Balance at 31 December	8.4	10.7	5.2	5.6

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan and retention 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, 15.0% of the shares awarded are transferred to the employees.

The deferred share plan is recognised in the income statement on a straight-line basis over a period of three years, while the retention share plan is recognised in the income statement on a straight-line basis over a period of six years.

22.2 Employee share option plans

The group has a long term incentive plan (LTIP), approved share option plan, unapproved share option plan, phantom share option and SAYE 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
LTIP	29/03/2004	0.1	Three year's service + NAV + TSR comparator	10 years
	21/03/2005	1.9		
	21/03/2006	1.6		
	21/03/2007	0.8		
Approved share option plan	29/03/2004	0.3	Three year's service + NAV	10 years
Unapproved share option plan	15/05/2003	0.1	Three year's service + NAV	10 years
	29/03/2004	0.3		
	06/12/2004	0.2		
SAYE	14/04/2005	0.3	Three year's service	
	13/04/2006	0.7		
	11/04/2007	0.6		
Total share options outstanding		6.9		

Vesting conditions

In summary the vesting conditions are defined as:

Three year's service	An employee has to remain in employment until the third anniversary from the grant date.
NAV	The NAV growth 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.

Further details of equity compensation plans can be found in the directors' remuneration report on pages 46 to 55.

The number and weighted average exercise prices of share options are as follows:

	2007		2006	
	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	43.2	10.2	50.4	8.8
Forfeited during the year	49.7	(2.8)	73.2	(0.4)
Exercised during the year	77.4	(1.9)	73.0	(0.4)
Granted during the year	55.9	1.4	115.0	2.2
Outstanding at 31 December	33.8	6.9	43.2	10.2
Exercisable at 31 December		0.9		-

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 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, except where forfeiture is due to the share option achieving the vesting conditions.

The following is a summary of the assumptions used to calculate the fair value

	2007 £m	2006 £m
Share options charge to income statement	3.1	1.0
Weighted average share price (pence per option)	108.7	95.9
Weighted average exercise price (pence per option)	33.8	43.2
Weighted average expected life of options	5.7 yrs	6.0 yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	4.0%	4.0%
Average risk-free interest rate	4.2%	4.0%

The expected volatility is based on historic volatility over a period of at least two years

23 Insurance liabilities and reinsurance assets

	2007 £m	2006 £m
Gross		
Claims reported and loss adjustment expenses	302.0	278.2
Claims incurred but not reported	785.6	587.8
Gross claims liabilities	1,087.6	866.0
Unearned premiums	384.3	359.6
Total insurance liabilities, gross	1,471.9	1,225.6
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	89.1	103.1
Claims incurred but not reported	191.3	166.8
Reinsurers share of claims liabilities	280.4	269.9
Unearned premiums	72.9	83.2
Total reinsurers' share of insurance liabilities	353.3	353.1
Net		
Claims reported and loss adjustment expenses	212.9	175.1
Claims incurred but not reported	594.3	421.0
Net claims liabilities	807.2	596.1
Unearned premiums	311.4	276.4
Total insurance liabilities, net	1,118.6	872.5

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

23.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2007			2006		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net

	£m	£m	£m	£m	£m	£m
Claims reported and loss adjustment expenses	278.2	(103.1)	175.1	349.3	(198.5)	150.8
Claims incurred but not reported	587.8	(166.8)	421.0	479.5	(140.8)	338.7
Balance at 1 January	866.0	(269.9)	596.1	828.8	(339.3)	489.5
Claims paid	(224.0)	55.5	(168.5)	(258.3)	132.5	(125.8)
Increase in claims						
- Arising from current year claims	425.0	(53.5)	371.5	394.6	(92.9)	301.7
- Arising from prior year claims	(86.4)	22.3	(64.1)	(36.3)	5.3	(31.0)
- Reinsurance to close	109.1	(37.6)	71.5	23.4	(9.9)	13.5
Net exchange differences	(2.1)	2.8	0.7	(86.2)	34.4	(51.8)
Balance at 31 December	1,087.6	(280.4)	807.2	866.0	(269.9)	596.1
Claims reported and loss adjustment expenses	302.0	(89.1)	212.9	278.2	(103.1)	175.1
Claims incurred but not reported	785.6	(191.3)	594.3	587.8	(166.8)	421.0
Balance at 31 December	1,087.6	(280.4)	807.2	866.0	(269.9)	596.1

b) Unearned premiums reserve

	2007			2006*		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	359.6	(83.2)	276.4	274.7	(63.0)	211.7
Increase in the year	780.5	(128.3)	652.2	745.1	(170.8)	574.3
Release in the year	(755.8)	138.6	(617.2)	(660.2)	150.6	(509.6)
Balance at 31 December	384.3	(72.9)	311.4	359.6	(83.2)	276.4

*The 2006 comparative for unearned premium reserves (gross and reinsurance) has been re-presented due to a revised allocation from insurance receivables to unearned premium reserve

23.2 Assumptions, changes in assumptions and sensitivity

a) Process used to decide on assumptions

The peer review reserving process

Beazley uses a quarterly dual track process to set its reserve

- The actuarial team uses several actuarial and statistical methods to estimate the ultimate premium and claims costs. The most appropriate methods are selected depending on the nature of each class of business, and
- The underwriting teams concurrently review the development of the incurred loss ratio over time, work with our claims managers to set specific reserve estimates for identified claims and utilise their detailed understanding of the risks underwritten to establish an alternative estimate of ultimate claims cost which are 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, is not lower than the actuarially established. The group also commissions an annual independent review by the group's syndicate reporting actuary to ensure that the reserves established are reasonable.

Actuarial assumptions

Chain-ladder techniques are applied to premiums, paid claims and incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of

estimated development factors based on historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.

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

The Bornhuetter-Ferguson method uses a combination of a benchmark/market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums, the latter is based on the paid or incurred claims observed to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations where developed claims experience was not available for the projection (i.e. 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 adjustment can be made to mitigate any subsequent over or under reserving. To date, this analysis indicates no systematic change to the outstanding claim strength across underwriting years.

Where a significantly large loss impacts an underwriting year (e.g. the events of 11 September 2001 and the hurricanes in 2004 and 2005), its development is usually very different from the attritional losses. In these situations, the large loss is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected.

Further assumptions are required to convert gross of reinsurance estimates of ultimate claims cost to a net of reinsurance level and to establish reserves for unallocated claims handling expenses and reinsurance bad debt.

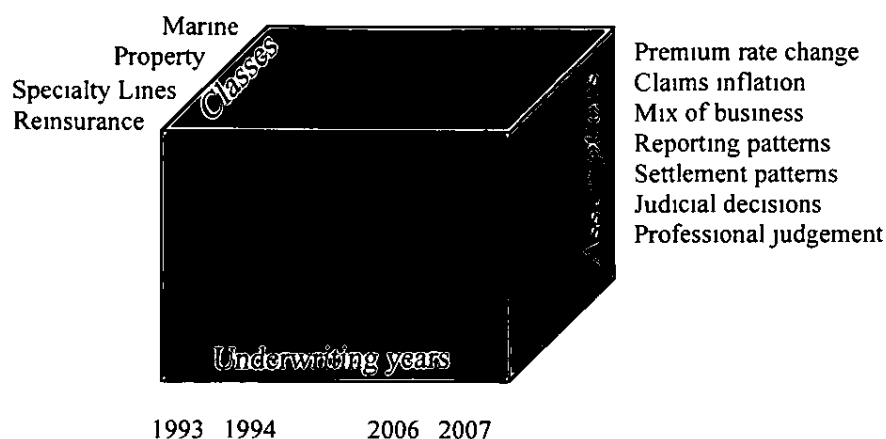
b) Major assumptions

The main assumption underlying these techniques is that the groups' 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 additional capital as ICA.

The net of reinsurance estimates of ultimate claims costs on the 2006 and prior underwriting years has improved by £64.1m during 2007 (2006 £31.0m). 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.

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 March 2005, we have identified a range of possible outcomes for each class and underwriting year combination directly from our ICA process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and 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 four segments - specialty lines, property, reinsurance and marine. 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 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 balance sheet.

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 redundancies or deficiencies of the past on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2007 are adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Gross ultimate claims	2002ae	2003 %	2004 %	2005 %	2006 %	2007 %	
Specialty lines							
12 months		71.4	71.4	71.1	68.9	68.4	
24 months		67.3	69.9	68.3	65.7		
36 months		65.0	66.3	65.2	-	-	
48 months		57.4	62.0	-	-	-	
60 months		51.3	-	-	-	-	
Property							
12 months		51.3	65.2	84.9	59.3	59.0	
24 months		38.5	65.1	82.3	46.7	-	
36 months		35.8	65.4	80.6	-	-	
48 months		35.2	63.6	-	-	-	
60 months		34.7	-	-	-	-	
Reinsurance							
12 months		58.5	86.7	191.2	52.5	59.8	
24 months		33.5	79.6	181.1	24.5	-	
36 months		28.0	74.8	181.4	-	-	
48 months		28.2	72.4	-	-	-	
60 months		25.2	-	-	-	-	
Marine							
12 months		59.8	62.6	82.4	57.3	57.3	
24 months		44.6	64.1	79.1	43.9	-	
36 months		39.0	61.8	69.8	-	-	
48 months		36.2	61.5	-	-	-	
60 months		35.8	-	-	-	-	
Total							
12 months		62.9	70.1	89.7	63.2	63.5	
24 months		52.5	69.0	86.7	53.8	-	
36 months		49.4	66.3	83.3	-	-	
48 months		45.1	63.4	-	-	-	
60 months		41.7	-	-	-	-	
<hr/>							
Total ultimate losses (£m)	1,048.4	269.9	467.3	663.1	484.2	611.1	3,544.0
Less paid claims net of reinsurance (£m)	(849.6)	(157.4)	(272.0)	(338.8)	(87.5)	(19.9)	(1,725.2)
Less unearned portion of ultimate losses (£m)	-	-	-	-	(41.0)	(309.1)	(350.1)
Gross claims liabilities (100% level) (£m)	198.8	112.5	195.3	324.3	355.7	282.1	1,468.7
Less unaligned share (£m)	(59.6)	(33.8)	(58.6)	(97.3)	(78.2)	(53.6)	(381.1)
Gross claims liabilities, group share (£m)	139.2	78.7	136.7	227.0	277.5	228.5	1,087.6

Net ultimate claims	2002ae	2003 %	2004 %	2005 %	2006 %	2007 %	
Specialty lines							
12 months		68.1	68.6	69.1	67.1	67.4	
24 months		64.9	67.8	67.4	64.8	-	
36 months		63.0	65.0	64.6	-	-	
48 months		55.9	60.4	-	-	-	
60 months		51.3	-	-	-	-	
Property							
12 months		49.2	59.7	64.8	62.3	61.8	
24 months		42.6	61.6	62.6	51.8	-	
36 months		40.4	60.7	58.8	-	-	
48 months		39.8	59.2	-	-	-	
60 months		39.4	-	-	-	-	
Reinsurance							
12 months		60.4	88.0	153.6	54.4	55.3	
24 months		38.2	83.6	126.7	35.9	-	
36 months		33.4	80.9	124.9	-	-	
48 months		34.1	75.2	-	-	-	
60 months		31.2	-	-	-	-	
Marine							
12 months		55.5	58.3	55.6	54.1	54.6	
24 months		44.3	52.5	48.9	43.0	-	
36 months		39.7	48.7	42.8	-	-	
48 months		39.2	48.1	-	-	-	
60 months		39.1	-	-	-	-	
Total							
12 months		60.3	66.6	73.5	62.5	63.1	
24 months		53.1	65.5	68.7	55.2	-	
36 months		50.5	62.9	65.2	-	-	
48 months		46.8	59.6	-	-	-	
60 months		44.2	-	-	-	-	
<hr/>							
Total ultimate losses (£m)	560.4	231.8	360.7	412.2	392.8	514.9	2,472.8
Less paid claims net of reinsurance (£m)	(483.9)	(136.6)	(194.9)	(174.5)	(82.8)	(19.3)	(1,092.0)
Less unearned portion of ultimate losses (£m)	-	-	-	-	(30.7)	(266.7)	(297.4)
Net claims liabilities (100% level) (£m)	76.5	95.2	165.8	237.7	279.3	228.9	1,083.4
Less unaligned share (£m)	(23.0)	(28.6)	(49.7)	(71.3)	(60.1)	(43.5)	(276.2)
Net claims liabilities, group share (£m)	53.5	66.6	116.1	166.4	219.2	185.4	807.2

Analysis of movements in loss development tables

General

We have updated our loss development tables to show the loss ratios as at 31 December 2007 for each underwriting year

The benign claims experience during 2007 has produced a general trend of reducing loss ratios across the underwriting years of our business and we comment on the main movements by team below

In addition, the catastrophe loading on the 2006 underwriting year has been removed as at 31 December 2007. We note that the 2006 underwriting year loss ratios are relatively consistent with the 2003 underwriting year at the same stage of development

The opening positions for the 2007 underwriting years are similar to the opening positions of the 2006 underwriting years, reflecting the relatively consistent rating environment

Specialty Lines

The changes to the opening positions across underwriting years have arisen from variations in the mix of business

The development of the 2004 underwriting year has not replicated the 2003 underwriting year at the fourth year of development. This is largely driven by a higher level of claims uncertainty on the 2004 underwriting year of two classes at this stage of development. As our reserving policy is to move the ultimate loss ratios only when we have sufficient evidence to do so, the timing of release is likely to differ between underwriting years

Property

The 2006 underwriting year ultimate loss ratios have reduced as the catastrophe loading has been removed

The ultimate loss ratios on the 2006 underwriting year are higher than the ultimate loss ratios on the 2003 underwriting year at the same stage of development, mainly as a result of claims arising from our homeowners account

Reinsurance

The 2006 underwriting year ultimate loss ratios have reduced as the catastrophe loading has been removed

Whilst the gross ultimate loss ratio on the 2005 underwriting year is relatively unchanged since 31 December 2006, we note that the net ultimate loss ratio has reduced caused by an increase in estimated net premium during the year. The increase has arisen as we do not expect to pay as much outwards reinstatement premium as we had originally cautiously anticipated

The 2003 and 2004 underwriting years have continued to develop favourably

Marine

The 2006 underwriting year ultimate loss ratios have reduced as the catastrophe loading has been removed

The 2005 underwriting year ultimate loss ratios have reduced as the claims experience has been favourable

The table below illustrates movements in our net claims recognised in the income statement in 2007 by both underwriting year and by business segments

2007	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Total £m
Current year	202.8	87.4	26.1	55.2	371.5
Prior year					
- 2004 and earlier	(25.5)	(2.0)	(3.0)	(0.3)	(30.8)
- 2005 year of account	(5.4)	(3.5)	(1.7)	(4.6)	(15.2)
- 2006 year of account	(2.5)	(5.3)	(5.2)	(5.1)	(18.1)
	(33.4)	(10.8)	(9.9)	(10.0)	(64.1)
Net insurance claims	169.4	76.6	16.2	45.2	307.4

2006	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Total £m
Current year	164.3	68.2	19.6	49.6	301.7
Prior year					
- 2003 and earlier	(12.3)	(0.7)	(0.4)	(0.4)	(13.8)
- 2004 year of account	(4.7)	(0.7)	(0.8)	(3.0)	(9.2)
- 2005 year of account	(1.0)	(0.5)	(4.7)	(1.8)	(8.0)
	(18.0)	(1.9)	(5.9)	(5.2)	(31.0)
Net insurance claims	146.3	66.3	13.7	44.4	270.7

24 Borrowings

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

	2007		2006	
	Group £m	Company £m	Group £m	Company £m
Carrying value				
Subordinated debt	9.0	9.0	9.2	9.2
Tier 2 subordinated debt	147.7	149.8	145.7	147.8
	<u>156.7</u>	<u>158.8</u>	<u>154.9</u>	<u>157.0</u>
Fair value				
Subordinated debt	9.0	9.0	9.2	9.2
Tier 2 subordinated debt	146.7	144.6	150.2	148.2
	<u>155.7</u>	<u>153.6</u>	<u>159.4</u>	<u>157.4</u>

The fair value of the borrowings is based on quoted market prices. When quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The discount rates used in the valuation techniques are based on the borrowing rates.

In November 2004, the group issued subordinated debt of US \$18m to JPMorgan Chase Bank, N A (JPMorgan). The loan was unsecured and interest was 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.

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first callable date of 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.

The group entered into a cross currency swap transaction with Lloyds TSB Bank plc (Lloyds TSB) and JPMorgan in October 2006. In exchange for £42.3m the group received US\$40m from each party which will be finally exchanged on termination of the contract, being October 2016. Lloyds TSB charges interest at US three-month LIBOR plus 2.25%, while JPMorgan charges interest at US three-month LIBOR plus 2.23%. As part of the agreement, the group receives interest at 7.25% from both parties. There is an option to terminate the swaps in October 2011 and annually thereafter until October 2016.

The group also entered into an interest rate swap transaction with Lloyds TSB and JPMorgan in October 2006. Under this agreement, the fixed interest rate of 7.25% on the balance of £107.7m (£53.8m from each party) is exchanged for floating interest rate of UK LIBOR plus 2.24% with Lloyds TSB and UK LIBOR plus 2.23% with JPMorgan. This agreement terminates on 17 October 2016 with an optional early termination in October 2011 and annually thereafter.

In addition to these borrowings we operate a £50m syndicated short-term banking facility, managed through Lloyds TSB. The facility was successfully renegotiated for three years in November 2007. If funds are drawn the charge is 1.25% above UK LIBOR, letters of credit raised against the facility are charged at 1.25%. At the end of 2007, no drawings had been made against this facility.

25 Derivative financial instruments

The group uses fair value interest rate hedges and net investment hedges to manage some of its exposures. The group entered into derivative financial instruments to manage this risk.

	2007 £m	2006 £m
Fair value		
Interest rate swap	(0.4)	(3.0)
Cross currency swap	1.6	0.6
	<u>1.2</u>	<u>(2.4)</u>

a) Fair value hedges

As described in note 24, the group has hedged its fixed rate borrowing using fixed-to-floating interest rate swaps. In 2007, the hedge was effective and therefore the group did not recognise any gain or loss in the income statement in respect of the hedge.

b) Hedge of net investment in foreign entity

The group's US dollar denominated borrowing is designated as a hedge of the net investment in the group's US subsidiaries. The foreign exchange gain of £0.1m on translation of the borrowing to sterling at the balance sheet date was recognised in "foreign currency translation reserve". This offsets the gain or loss on translation of the net investment in the group's US based subsidiaries. In 2007, the hedge was effective and therefore the group did not recognise any gain or loss in the income statement in respect of the hedge.

26 Other payables

	2007 Group £m	Company £m	2006 Group £m	Company £m
Reinsurance premiums payable	59.3	-	108.2	-
Accrued expenses including staff bonuses	34.2	-	25.4	-
Other payables	8.8	0.8	9.9	0.1
Amounts due to subsidiaries	-	39.0	-	37.6

Due to syndicate 623 and associates	4 3	-	9 2	-
	106 6	39.8	152.7	37 7

27 Retirement benefit obligations

	2007 £m	2006 £m
Retirement benefit obligations	0 9	1 9

Of the £0 9m (2006 £1 9m) of retirement benefit obligations £0 3m (2006 £0 5m) is recoverable from syndicate 623. Beazley Furlonge Limited operates a funded pension scheme ("the Beazley Furlonge Limited Pension Scheme") providing benefits based on final pensionable pay, with contributions being charged to the income statement so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary using the projected unit method and the most recent valuation was at 31 December 2007.

Pension benefits

Amount recognised in the balance sheet

	2007 £m	2006 £m
Present value of funded obligations	17 5	16 0
Fair value of plan assets	(15 5)	(13 3)
	2 0	2 7
Unrecognised actuarial losses	(1 1)	(0 8)
Liability in the balance sheet	0 9	1 9

Amounts recognised in the income statement

Current service cost	-	0 3
Interest cost	0 8	0 6
Expected return on plan assets	(0 9)	(0 6)
	(0 1)	0 3

Movement in present value of funded obligations recognised in the balance sheet

Balance at 1 January	16.0	14 1
Current service cost	-	0 3
Interest cost	0 8	0 6
Actuarial losses	0 7	1 0
Balance at 31 December	17 5	16 0

Movement in fair value of plan assets recognised in the balance sheet

Balance at 1 January	13.3	10 1
Expected return on plan assets	0 9	0 6
Actuarial (losses)/gains	(0 4)	0 5
Employer contributions	1 7	2 1
Balance at 31 December	15.5	13.3

Plan assets are comprised as follows:

Equities	12 5	10 9
Bonds	3 0	2 4
Total	15 5	13 3

The actual return on plan assets was £0.4m (2006 £1.2m)

Principal actuarial assumptions

Discount rate	5.5%	5.2%
Inflation rate	3.4%	3.2%
Expected return on plan assets	6.2%	6.3%
Future salary increases	6.2%	4.4%
Future pensions increases	3.0%	2.7%
Life expectancy	84 years	84 years

28 Deferred income tax

	2007 £m	2006 £m
Deferred income tax asset	4.5	3.5
Deferred income tax liability	(34.0)	(11.6)
	<u>(29.5)</u>	<u>(8.1)</u>

The movement in the net deferred income tax is as follows

Balance at 1 January	(8.1)	(3.6)
Income tax charge	(21.4)	(4.1)
Foreign exchange translation differences	-	(0.4)
Balance at 31 December	<u>(29.5)</u>	<u>(8.1)</u>

	Balance 1 Jan 07 £m	Recognised in income £m	Balance 31 Dec 07 £m
Plant and equipment	1.2	(0.9)	0.3
Intangible assets	(0.7)	-	(0.7)
Other receivables	(0.1)	0.3	0.2
Trade and other payables	2.2	(2.2)	-
Syndicate profits	(14.8)	(19.3)	(34.1)
Retirement benefit obligations	0.6	(0.3)	0.3
Tax losses	3.5	1.0	4.5
Net deferred income tax account	<u>(8.1)</u>	<u>(21.4)</u>	<u>(29.5)</u>

	Balance 1 Jan 06 £m	Recognised in income £m	Balance 31 Dec 06 £m
Plant and equipment	0.4	0.8	1.2
Intangible assets	(0.3)	(0.4)	(0.7)
Other receivables	(0.4)	0.3	(0.1)
Trade and other payables	1.1	1.1	2.2
Syndicate profits	(7.7)	(7.1)	(14.8)
Retirement benefit obligations	0.9	(0.3)	0.6
Tax losses	2.4	1.1	3.5
Net deferred income tax account	<u>(3.6)</u>	<u>(4.5)</u>	<u>(8.1)</u>

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

29 Operating lease commitments

The group leases land and buildings under a non-cancellable operating lease agreement

The future minimum lease payments under the non-cancellable operating lease are as follows

	2007 £m	2006 £m
No later than 1 year	1 3	1 3
Later than 1 year and no later than 5 years	6 6	5 8
Later than 5 years	5 8	7 0
	13 7	14 1

30 Related party transactions

The group and company have related party relationships with syndicate 623, its subsidiaries, associates and its directors

30 1 Syndicate 623

Beazley Furlonge Limited, a wholly owned subsidiary of the group, received management fees and profit commissions for providing a range of management services to syndicate 623 in which the corporate member subsidiaries participated


The value of the services provided and the balances with the syndicate are as follows

	2007 £m	2006 £m
Services provided		
Syndicate 623	13 2	15 9
Balances due:		
Due to syndicate 623	(1 9)	(6 3)

30 2 Key management compensation

	2007 £m	2006 £m
Salaries and other short-term benefits	9 2	8 6
Post employment benefits	0 9	0 4
Share-based remuneration	1 5	0 5
	11 6	9 5

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 

30 3 Other related party transactions

At 31 December 2007, the group had a balance payable to the associates of £2 5m (2006 £1 8m) All transactions with associates and subsidiaries are priced on an arm's length basis

31 Parent company and subsidiary undertakings

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

The following is a list of all the subsidiaries

	Country of incorporation	Ownership interest	Nature of business
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents
BFHH Limited	England	100%	Dormant
Beazley Investments Limited	England	100%	Investment company
Beazley Corporate Member Limited	England	100%	Underwriting at Lloyd's
Beazley Dedicated No 2 Limited	England	100%	Underwriting at Lloyd's
Global Two Limited	England	100%	Underwriting at Lloyd's
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 Corporate Member No 2	England	100%	Dormant
Beazley Corporate Member No 3	England	100%	Dormant
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

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

Company	2007 £m	2006 £m
Debt securities and other fixed income securities	306.2	292.0
	306.2	292.0

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 the group's presentation currency

	2007		2006	
	Average	Year end spot	Average	Year end spot
US dollar	2.00	1.99	1.84	1.96
Canadian dollar	2.15	1.96	2.09	2.28
Euro	1.46	1.36	1.47	1.48

Admitted carrier

An insurance company authorised to do business in the US. An agreement is entered into which stipulates the terms and conditions under which a business must conduct within a state in the US.

Aggregates/aggregations

Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss.

Aggregate excess of loss

The reinsurer indemnifies an insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount.

A.M. Best

A.M. Best is a worldwide insurance-rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance-related organisations, following a rigorous quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile. Beazley Group plc obtained an A rating, while Beazley Insurance Company, Inc., received a rating of A.

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.

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 percent, of net insurance claims to net earned premiums.

Combined ratio

Ratio, in percent, 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.

Coverholder/managing general agent

A firm either in the United Kingdom or overseas authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance in the name of the members of the syndicate concerned, subject to certain written terms and conditions. A Lloyd's broker can act as a coverholder.

Deferred acquisition costs (DAC)

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage, premium levy and staff-related costs) which are capitalised and amortised over the term of the contracts.

Earnings per share (EPS) – Basic/Diluted

Ratio, in pence, calculated by dividing the consolidated profit after tax by the weighted average number of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share, the number of shares and profit or loss for the year is adjusted for all dilutive potential ordinary shares like 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 percent, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums.

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 (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)

International accounting standards board (IASB)

An international panel of accounting experts responsible for developing IAS/IFRS

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

Lloyd's

Lloyd's is the world's leading specialist insurance market and expects to have the capacity to write £16 1bn of business in 2007 It occupies sixth place in terms of global reinsurance premium income, and is the second largest surplus lines insurer in the US In 2007, 66 syndicates are underwriting insurance at Lloyd's, covering all classes of business from more than 200 countries and territories worldwide

Managed syndicate

The combination of syndicate 2623 and 623 through which the group underwrite insurance business

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 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 balance sheet 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 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 percent calculated by dividing the consolidated profit after tax by the average 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

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

Stamp capacity

The volume of business measured in gross written premiums net of acquisition costs underwritten by the group through its managed syndicates at Lloyd's of London

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

The increase in the share price plus the value of any dividends paid and proposed during the year

Treaty reinsurance

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

Unearned premiums reserve

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