

Results for the year ended 31 December 2008

Friday, 13 February 2009

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Disclaimer

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Overview

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Overview

- Profit before tax at £87.2m (2007: £138.5m)
- Profit before tax and foreign exchange on non monetary items decreased to £41.0m (2007: £130.3m)
- Return on equity of 16% (2007: 28%)
- Return on equity excluding foreign exchange on non-monetary items 8% (2007: 26%)
- Final dividend up 10% to 4.4p; full year total 6.6p
- Strong underwriting performance. Combined ratio 90%* (2007: 90%*)
- Investment and cash balances up to £2.0bn (2007: £1.5bn); investment loss of £25.8m (2007: income of £64.9m)
- Prior year reserve releases of £72.8m: (2007: £64.1m)
- US\$269.1m of business written through US (2007: US\$175.2m)
- Acquisition of Momentum Underwriting in Q4 2008 – new Accident and Life team

* Note: Ratios stated above exclude the foreign exchange on non-monetary items

Group initiatives

- Agreement to acquire First State Management Group Inc, a US-based underwriting manager specialising in commercial property insurance
- Plans to raise additional capital of £150m (net of expenses) through a rights issue and placing
- Plans to change corporate structure through the creation of a new parent company legally resident in Jersey and tax resident in Ireland

Financials

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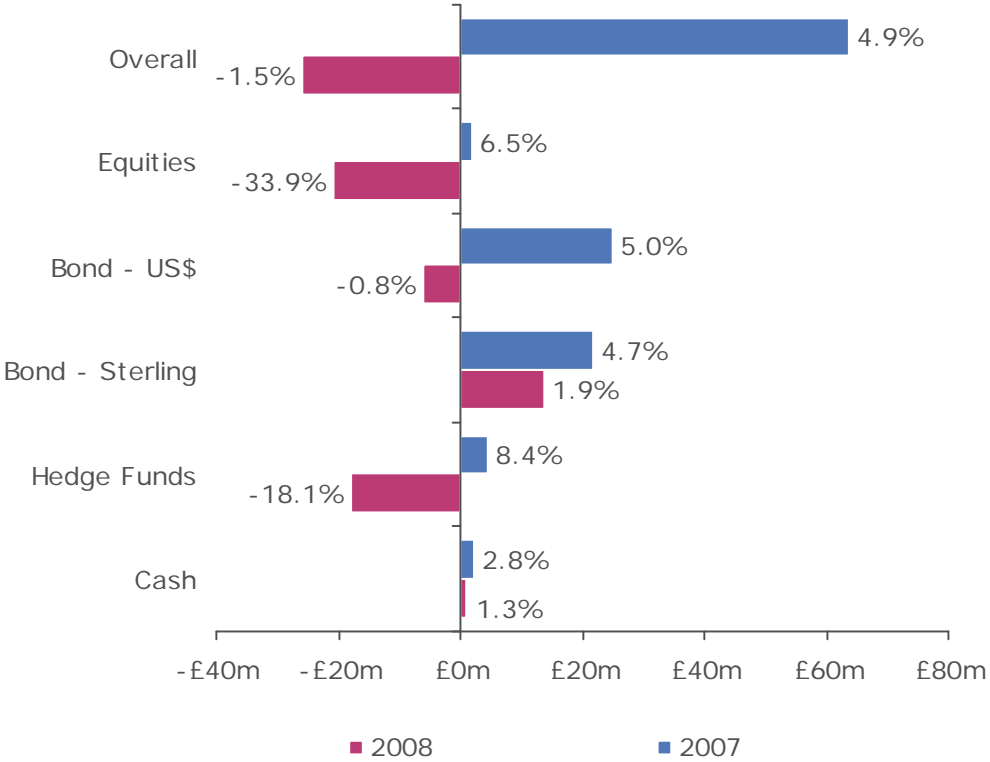
Performance

	Year ended 31 Dec 2008	Year ended 31 Dec 2007	% increase/ (decrease)
Gross premiums written (£m)	875.7	780.5	12%
Net premiums written (£m)	740.4	652.2	14%
Net earned premiums (£m)	683.1	617.2	11%
Profit before tax (£m)	87.2	138.5	(37%)
Comprises:			
Profit before tax and foreign exchange adjustments on non-monetary items	41.0	130.3	
Foreign exchange on non-monetary items	46.2	8.2	
Earnings per share	18.8p	28.1p	(33%)
Dividend per share	6.6p	10.0p	(34%)
of which special dividend	-	4.0p	(100%)
Net assets per share	122.5p	112.1p	9%

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Investments – income and return

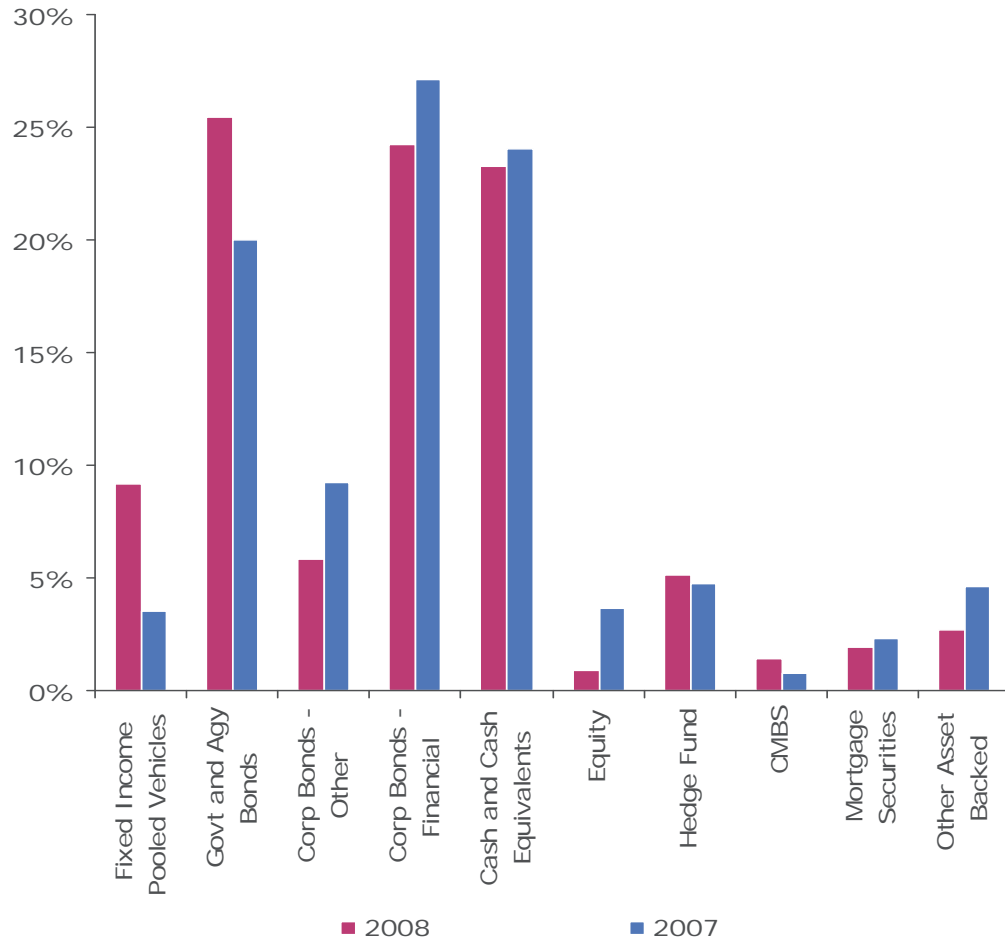
Major Asset Classes - 2008 vs. 2007



2008 Commentary

- Cash and investments £2.0bn
- Investment return -1.5%
- Reduced exposure to corporate bonds and structured securities
- Equity holding below 1%
- Weighted average duration of bond and cash portfolio was 9 months at year-end

Investments – portfolio split



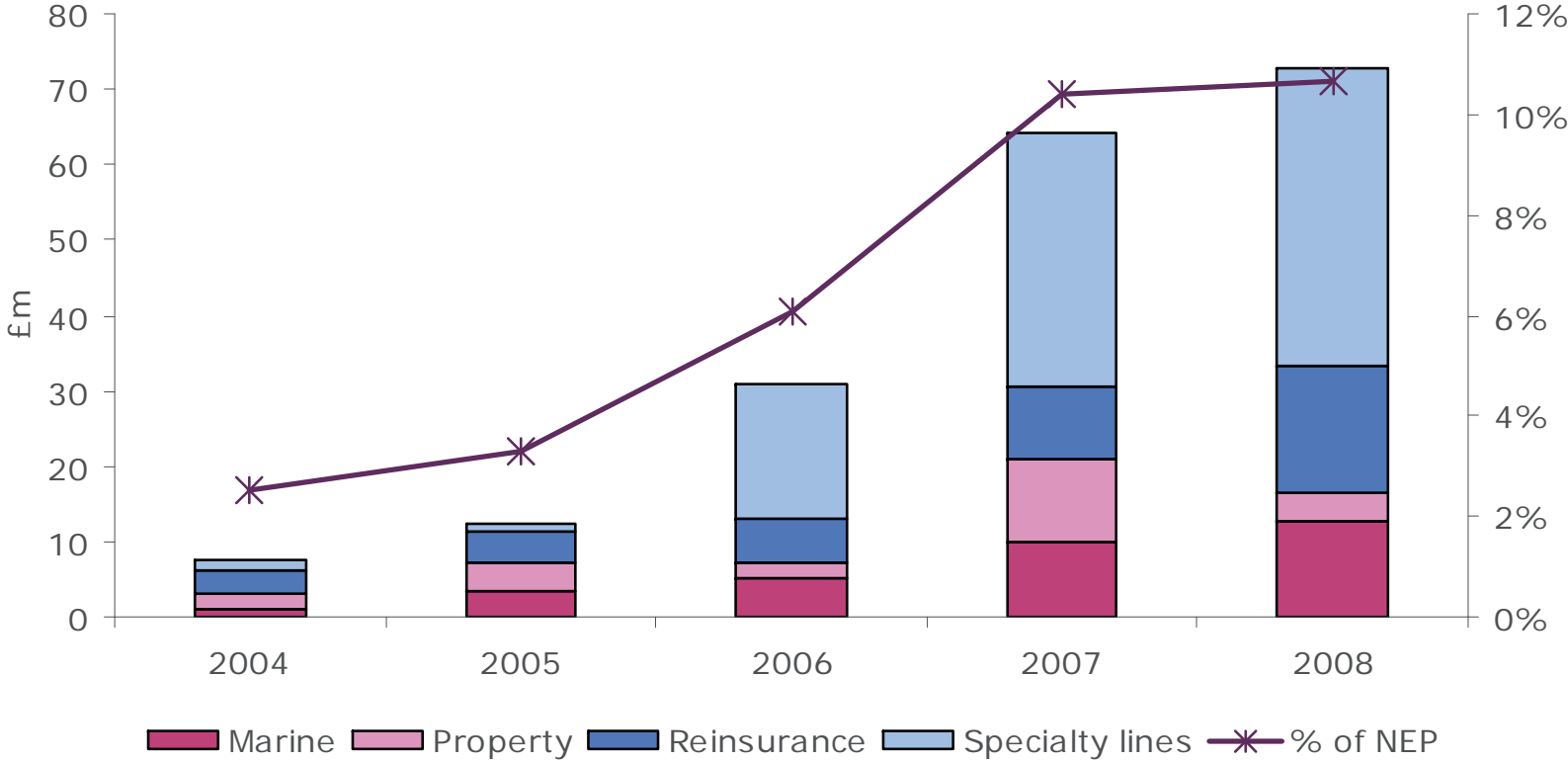
Commentary

- Investment capability enhanced by recruitment of in-house expertise
- Hedge fund allocation remains constant
- Of the 6% allocated to ABS, 5.6% rated AAA

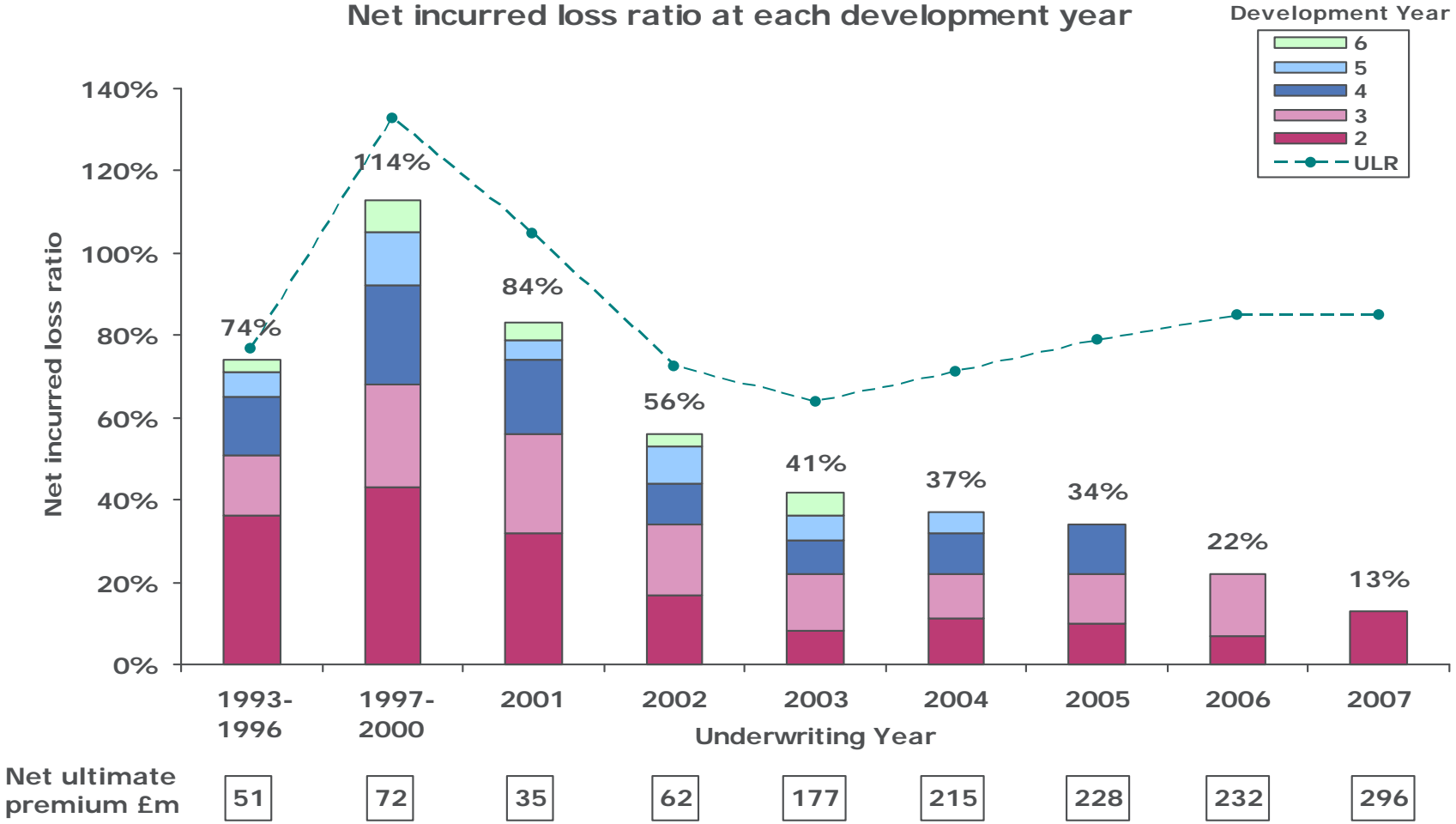
Bond Portfolio by Rating

Government and Agency	25.5%
AAA	12.3%
AA+ to AA-	6.8%
A+ to A-	13.5%
BBB+ to BBB-	3.4%
Sub investment grade	0.0%
Total	61.5%

Prior year reserve releases



Reserves – Specialty lines: 2003 – 2007 developing well

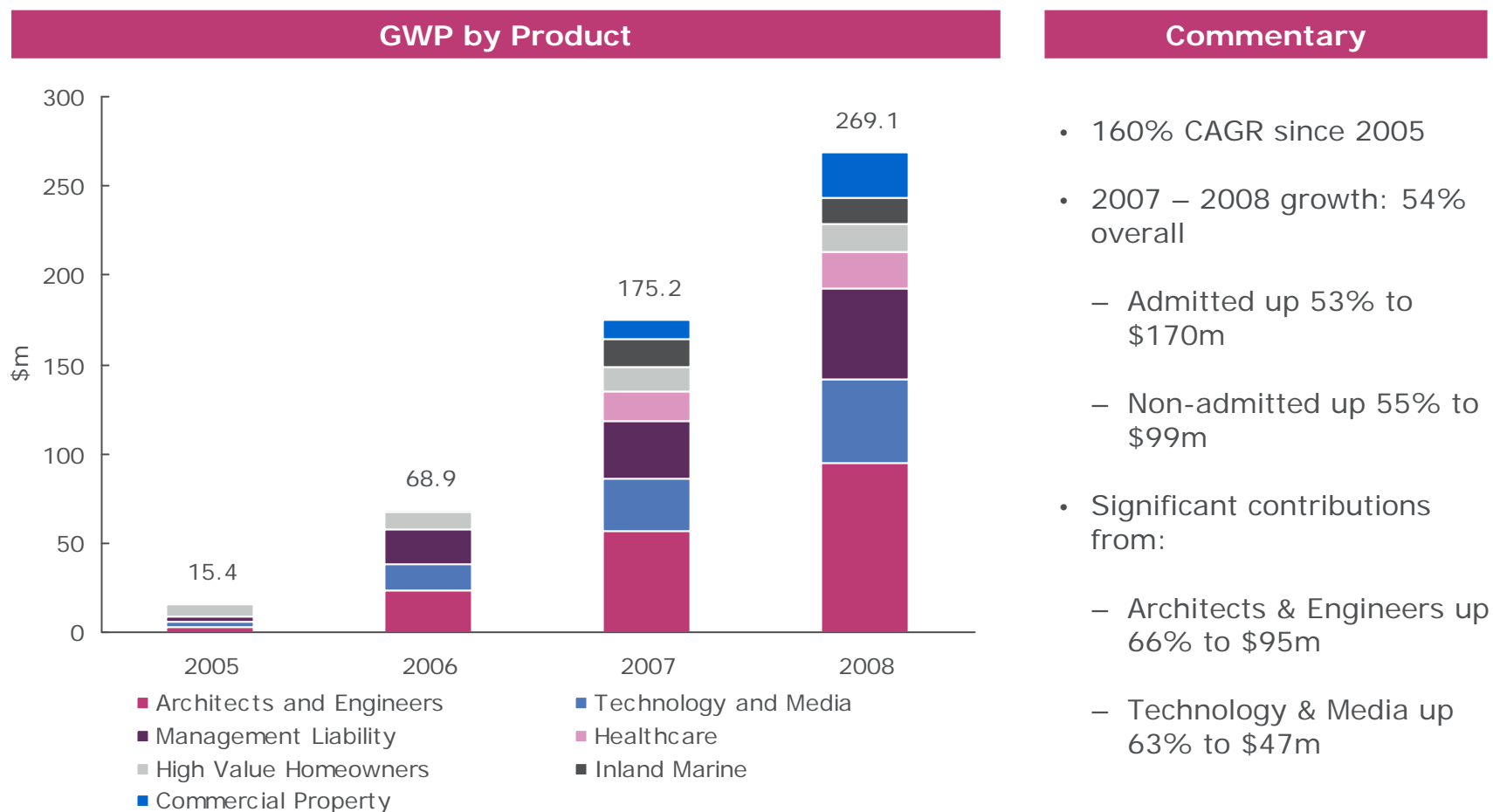


* Chart shows incurred claims as a percentage of premiums net of brokerage and reinsurance costs

Capital

	2008	2007
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Sources of funds		
Shareholders funds (£m)	412.7	398.6
Debt (£m)	162.5	159.0
	575.2	557.6
Uses of funds		
Lloyd's underwriting (£m)	360.8	306.2
US Insurance Company (£m)	77.1	55.5
	437.9	361.7
Surplus (£m)	137.3	195.9
Unavailable surplus (£m)	(78.6)	(113.3)
	58.7	82.6
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US – premium development



Note: All figures for 2008 are Company estimates

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Divisional review

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Marine

	Year ended 31 December		
	2008	2007	
Gross premiums written (£m)	148.7	139.8	• Growth in marine hull and war premium
Net premiums written (£m)	128.2	119.0	• Reserves developed well enabling £12.8m of reserve releases (2007: £10.0m)
Net earned premiums (£m)	127.4	116.1	
Claims ratio	49%	39%	• Hurricanes Ike and Gustav impacted profits by £5.4m
Combined ratio	85%	75%	
Rate decrease	(6%)	(7%)	2009 outlook
			• Hull, war and cargo premiums reducing on back of drop in asset and commodity values
			• Energy rates increasing by a minimum of 10%

Political risk & contingency

Year ended 31 December

	2008	2007
Gross premiums written (£m)	70.4	64.8
Net premiums written (£m)	56.0	56.5
Net earned premiums (£m)	55.0	43.3
Claims ratio	26%	26%
Combined ratio	62%	70%
Rate decrease	(6%)	(8%)

- Strong performance from contingency and terrorism: political risk experienced a difficult market
- Reserve releases of £11.6m (2007: £8.9m)

2009 outlook

- Political risk pricing environment improving in 2009 due to global economic downturn
- Terrorism market pricing to stabilise

Property

Year ended 31 December

	2008	2007	
Gross premiums written (£m)	179.2	188.0	<ul style="list-style-type: none"> Continued pressure on commercial property rates and reduced exposure to UK homeowners
Net premiums written (£m)	147.2	157.4	
Net earned premiums (£m)	157.8	158.0	<ul style="list-style-type: none"> Hurricanes Ike and Gustav impacted profits by £15.6m
Claims ratio	67%	48%	
Combined ratio	107%	92%	2009 outlook
Rate decrease	(6%)	(2%)	<ul style="list-style-type: none"> Commercial property rates increased by 7.5% in January

Reinsurance

Year ended 31 December

	2008	2007
Gross premiums written (£m)	70.2	57.8
Net premiums written (£m)	58.0	49.6
Net earned premiums (£m)	55.9	45.9
Claims ratio	39%	35%
Combined ratio	66%	66%
Rate decrease	(6%)	5%

- Strong underwriting performance
- Hurricanes Ike and Gustav impacted profits by £4.1m
- Reserve releases of £16.6m (2007: £9.9m)
- Opened Munich office in Q4 2008

2009 outlook

- Improved rating environment expected in 2009, with increase for January averaging 8%

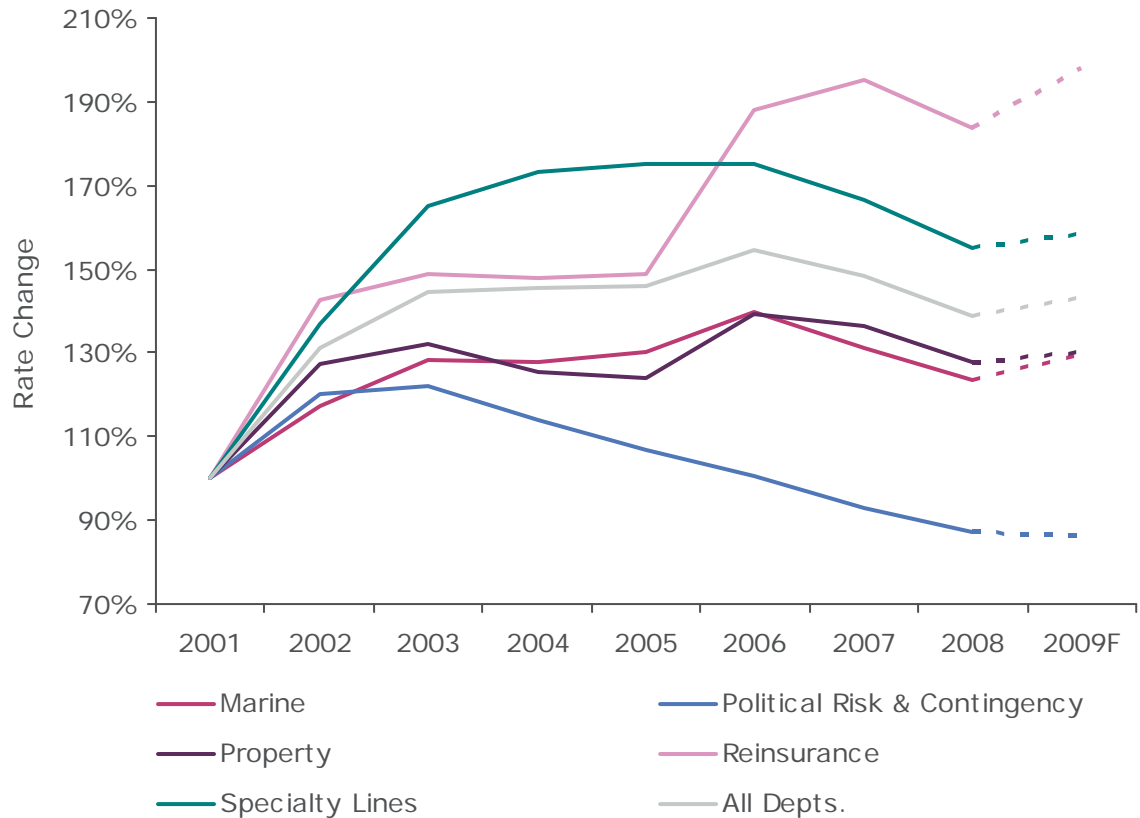
Specialty lines

Year ended 31 December

	2008	2007	
Gross premiums written (£m)	407.2	330.1	• Premiums increased due to growth in US sourced business
Net premiums written (£m)	351.0	269.7	• Claims reserves develop well enabling release of £28.0m (2007: £24.5m)
Net earned premiums (£m)	316.8	243.2	
Claims ratio	62%	65%	
Combined ratio	93%	102%	2009 outlook
Rate decrease	(7%)	(5%)	• Rates stabilising and expected to improve
			• Implementing recession plans

Rating environment

Cumulative Rate Changes since 2001



Note: All figures for 2008 and 2009 are Company estimates

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Commentary

- Increased competition in 2008, particularly in first 9 months of the year
- 2008 rates in line with forecasts
- Rate improvement in final quarter of 2008
- 1/1 renewals:
 - Reinsurance
 - Energy
 - Commercial property

Capital raising & acquisition

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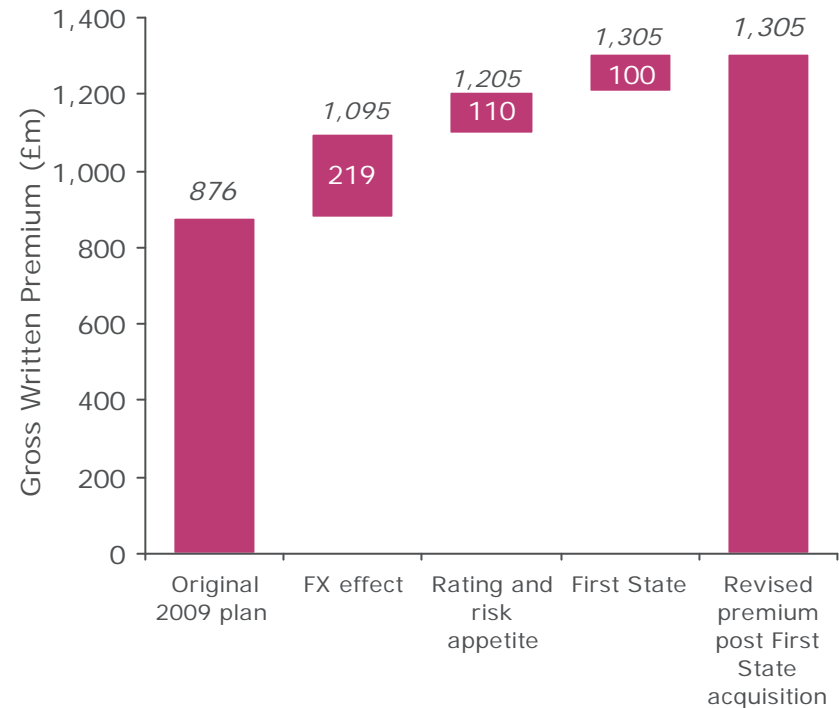
Proposed Rights Issue

Proposal for fully underwritten £150 million (net of expenses) rights issue and placing to support premium growth from £876m to £1,305m

Planned Use of Rights Issue

1. To support the expansion of existing underwriting activities
 - c.£103m⁽¹⁾ capital support for current Lloyd’s business plan
2. To support acquisition of First State
 - £27m⁽¹⁾ capital support
 - £24m⁽²⁾ consideration funding
 - Total capital required £154m
 - Of which, £130m underwriting capital

Increase in GWP for Current Plan



(1) Including effects of revised exchange rate from US\$1.99:£1 to US\$1.5:£1

(2) At US\$1.5:£1



Acquisition of First State - a leading US surplus lines property underwriting manager

The acquisition provides a complementary book of short-tail business and represents a step-change in scale in the US

- First State is:
 - Well-known to Beazley
 - Highly respected specialist team
 - Strong track record of consistent profitability
 - Estimated 2009 annualised GWP of \$150m to be written through 2623 / 623
- Rationale
 - Complementary book
 - Provides balance to liability lines
 - High barriers to entry
 - Supports existing US growth
- Capital requirement
 - £27m FAL to support First State premiums written to Beazley syndicates in 2009
 - \$35.4m consideration plus \$-for-\$ adjustment to the extent NAV at completion differs from \$2.8m
- Subject to Lloyd's approval; expected completion date 1 April 2009

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Summary & outlook

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Summary & outlook

- Beazley has a highly experienced team committed to developing the business
- For over 20 years Beazley has delivered unbroken profitability
- The group intends to redomicile to Ireland which will, among other things, provide a favourable tax environment from which to develop the group's business
- The group is strongly positioned to capitalise on current rate hardening across its existing catastrophe-exposed lines as well as anticipated improvements extending into the remainder of its specialist portfolio
- Acquisition of First State will help to consolidate and expand Beazley's presence in the US by enabling the group to support an attractive, well-known portfolio as well as extending its distribution reach
- Capital raising is expected to:
 - Provide an acceleration of strategy to grow existing Lloyd's businesses
 - Expand the US platform at an opportune time

Any questions?

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