

## Beazley PLC

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### Table Of Contents

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Major Rating Factors

Rationale

Outlook

Financial Profile: Strong Financial Flexibility Demonstrated Regularly  
Since Formation

# Beazley PLC

## Major Rating Factors

### Strengths:

- Strong earnings from the participation on Beazley Furlonge - Syndicate 0623/2623/3622/3623.
- Strong competitive position, benefiting from membership of the Lloyd's Market and the developing U.S. operations.
- Strong enterprise risk management, with particular strengths recognized in cycle management.

### Weaknesses:

- Potential for earnings volatility following the increased appetite for catastrophe risk.
- Possibility of increased investment risk.

Counterparty Credit Rating
Local Currency BBB+/Stable/--

## Rationale

The 'BBB+' long-term counterparty credit rating on U.K.-based Beazley PLC reflects its position as the current holding company of the group (Beazley). The group's principal source of earnings is derived from its participation in Beazley Furlonge - Syndicate 0623/2623/3622/3623 (Lloyd's Syndicate Assessment '4/Stable'), which operates within the Lloyd's insurance market (Lloyd's or the Market; insurer financial strength rating, A+/Stable).

The rating primarily reflects key features of Beazley's operating profile, including Syndicate 0623/2623/3622/3623's strong earnings, strong competitive position, and Standard & Poor's Ratings Services' positive view of the group's management and strategy. These strengths are partially offset, however, by the increased potential for earnings volatility following the increased appetite for catastrophe risk and, potentially, investment risk.

The group's operating performance is strong, reflecting the expectation that Syndicate 0623/2623/3622/3623 will maintain its strong performance and continue to outperform peers and the Lloyd's Market as a whole. This expectation reflects Standard & Poor's opinion that the syndicate has superior risk-selection and cycle-management capabilities in relation to the capabilities of many peers, as demonstrated over its 20-year-plus history. The syndicate has outperformed the Lloyd's Market since 1997, and has never failed to record a positive return since formation in 1986. This strong performance is despite the Lloyd's Market as a whole recording many years of pretax losses over the past 20 years.

The syndicate has a strong competitive position, drawing significantly on Lloyd's strong competitive position. In addition, as one of the largest Lloyd's syndicates, with a respected "own-brand" name, Syndicate 0623/2623/3622/3623 has established itself as a leader of specialty risks, with strong supporting franchises in lines of business offering some diversity. The group has invested heavily in developing its U.S. operations, and these operations are now successfully enhancing the group's overall standing within the global insurance market.

The group's enterprise risk management (ERM) is assessed as strong overall. This means that in Standard & Poor's opinion, it is very unlikely that Beazley will incur losses outside its risk appetite. This assessment is supported by strong strategic risk management and risk culture, and strong controls over the majority of its risks, including the

management of the insurance cycle.

The group has increased its risk appetite related to catastrophe risk business, and, while these gives more balance to the overall portfolio, it does raise the potential for greater volatility in the operating performance.

Beazley has shifted its investment strategy from an explicitly liability matched profile to an absolute return target with the possibility of up to 20% of total investments being held in capital growth assets. This raises the market risk of the investments; however, it is noted that the remaining portfolio is expected to be very conservative.

### Liquidity

We consider Beazley's liquidity as strong overall. Invested assets are short term in duration, and held in tradable, highly rated bonds and money market instruments. Underwriting cash flows remain positive. The group has bank deposits of approximately 10% of invested assets. At year-end 2008, Beazley's ratio of adjusted liquid assets to technical reserves was 118%, down from 133% in 2007, but still considered strong.

Beazley has a banking facility providing £100 million of potential liquidity, of which none is drawn down.

### Outlook

The stable outlook on Beazley reflects the stable outlook on Syndicate 0623/2623/3622/3623. This, in turn, reflects Standard & Poor's expectation that the management of the syndicate will focus on extending the track record of strong and stable operating performance. We expect the 2010 combined ratio to be below 95%. Strong operating performance should contribute to the achievement of a cross-cycle, pretax, return-on-equity target of 18%.

Standard & Poor's expects that capitalization at the group will remain strong during 2010. Positive assessment action is unlikely over the assessment horizon, although it could occur should there be substantial outperformance relative to the Market. The assessment may be lowered if the syndicate's revised underwriting and investment strategies weaken Beazley's operating performance relative to its strong historical trend, and peers.

A failure to adequately fund the group's anticipated growth, while maintaining capital adequacy in line with the rating would also prompt a review of the rating.

### Financial Profile: Strong Financial Flexibility Demonstrated Regularly Since Formation

We consider Beazley's financial flexibility as strong. The group raised £150 million via a rights issue and placing in April 2009, predominantly to support increased underwriting, and to fund the acquisition of a U.S.-based Underwriting Manager.

Beazley has in the past demonstrated its ability to access the capital markets, including its successful IPO in 2002, which raised £150 million, and the raising of a further £105 million in 2004 to fund the expansion into the U.S. and the acquisition of an admitted lines company.

The group raised £150 million of debt (rated 'BBB-') during 2006, and also has a £100 million banking facility, of which none is currently drawn down. Financial leverage (debt including LOCs/capital) at year-end 2008 was 32%, which is within the tolerance level for a rating at this level. Fixed charge cover was a strong 12x for 2008.

Potentially, the syndicate also has access to other types of financial support through reinsurance arrangements, including Special Purpose Syndicates.

The need for additional capital is likely to be driven by future acquisitions, to which Beazley remains open to potential deals, subject to strict acceptance criteria.

### Beazley PLC/Financial Statistics

(Mil. £)	--Year ended Dec. 31--			
	2008	2007	2006	2005
EBITDA	87.2	138.5	92.4	17.9
Fixed charges	12.6	12	5.6	1.8
Fixed-charge coverage (x)	6.9	11.5	6	9.9
Debt	162.5	156.7	154.9	29.1
LOCs supporting underwriting at Lloyd's	0	0	0	72
Adjusted capital	590.2	555.3	474.4	381.5
Debt/capital (excluding LOCs)	27.5	28.2	33.2	7.6

Data relates to Beazley Group Ltd. for 2008 and prior.

### Ratings Detail (As Of January 28, 2010)\*

#### Beazley PLC

Counterparty Credit Rating

Local Currency

BBB+/Stable/--

#### Counterparty Credit Ratings History

09-Jun-2009

Local Currency

BBB+/Stable/--

#### Related Entities

##### Beazley Group Ltd.

Issuer Credit Rating

BBB+/Stable/--

Subordinated (1 Issue)

BBB-

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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