



Andrew Beazley  
Chief executive

We can't afford to sit still against the changing world; we have to move with it. At Beazley, we focus on what we do so that we do it well. We anticipate and respond to what our clients want and we react to the constantly evolving market and climate.

Managed syndicate results			
	2002 £m	2001 £m	2000 £m
Gross premiums written	438	355	187
Net premiums written	289	269	129
Net premiums earned	292	179	115
Net claims incurred	(174)	(134)	(67)
Net operating expenses	(102)	(71)	(47)
Balance on technical account	22	(16)	10
Profit/(loss) for the period	22	(17)	10
Claims ratio	60%	75%	58%
Expense ratio	34%	33%	39%
Combined ratio	94%	108%	97%

This is my first opportunity to present you with a detailed account of our key operating activities. We have certainly experienced an exciting evolution to date.

Beazley has an excellent market profile as a specialist underwriter. This is due to a number of unique qualities and strengths. I would like to start first by presenting the syndicate's financial results, and then explaining the reasons for our success.

### Underwriting results

As can be seen in the table, 2002 has been a strong year in terms of premium growth and underwriting results. During a hard market, all divisions have achieved, on average, a rate increase of 33% on renewal business compared with the prior year. In addition we have seen a particularly low loss climate. Quota share reinsurance was purchased during 2002 for capacity management purposes, which has reduced the net premium written.

Analysis of the underwriting results of each of the four underwriting departments is shown on pages 14 to 17.

### What makes Beazley different?

Through our specialist approach to underwriting, we aim to leverage our expertise in the existing lines through vertical growth and continued sound risk management. We believe that our skilled underwriting and high standards of service make us a market of choice.

To facilitate and complement our approach to risk taking, we have built a robust distribution network.

The sophisticated network enables us to take full advantage of the broad skill-base and licenses us to trade both domestically and internationally. This has also been helped by fostering strong relationships with brokers and using cutting-edge technology.

### Our key strengths

There are several unique factors that have contributed to the success of the Beazley Group.

### Our specialist approach to underwriting

We are not generalists. We focus on writing specialty-risk insurance and reinsurance business in selected markets. We are an established lead underwriter in the main lines of business within our four divisions: Property Group, Specialty Lines, Reinsurance, and Marine. There is a dedicated skill base within each of these departments – our underwriters are leaders in their own discipline.



Beazley IQ is our unique electronic, interactive queuing system for the box at Lloyd's.

#### An established flow of business

The proceeds from the IPO fund an existing business which has grown since 1986 with the syndicate operations being consistently profitable. This is primarily due to the strong underwriting culture and due to the distribution network established with brokers. We have used approximately 150 broking firms to access the market. As a provider of insurance, we need to reach thousands of clients across many countries using the distribution networks.

Our underwriters spend a good deal of time each year travelling to meet brokers and their clients around the world. It's the best way to understand their businesses, service issues and the ever-changing risks concerning them.

#### Technologically innovating

We are constantly looking for ways to improve the way we do business. For example, Beazley IQ is a unique and exclusive electronic, interactive queuing system for the box at Lloyd's, which drastically cuts broker waiting times. We are also the only syndicate to use webcams to put our trading box on public view at [www.beazley.com](http://www.beazley.com) so that brokers can easily check the availability of an underwriter. Our website also enables clients to access the latest news and product information.

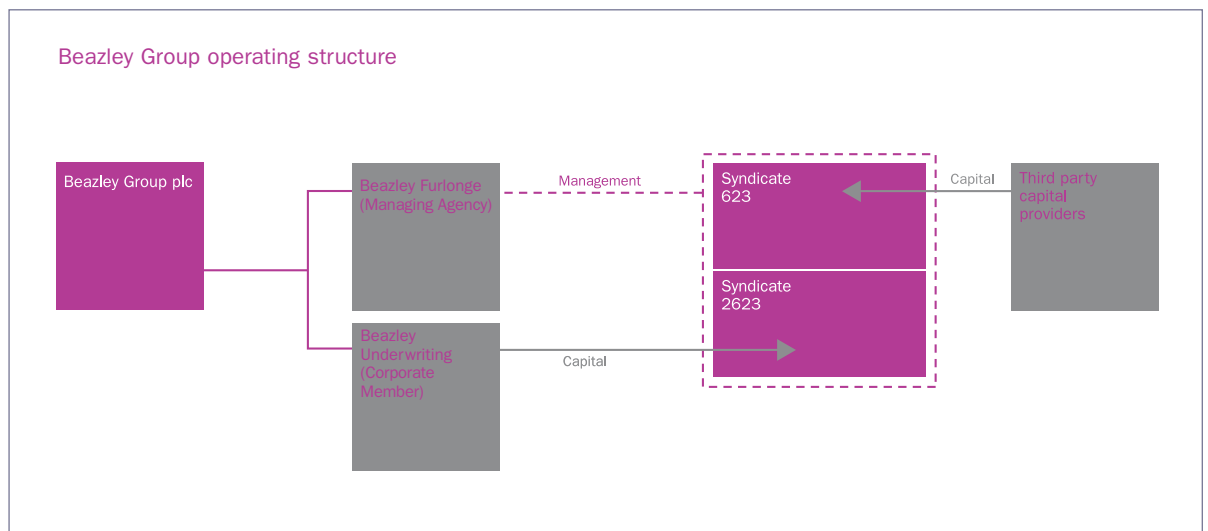
The Beazley Information Centre (BIC) is an innovative management information system, which we have used over the last five years. BIC is based on OLAP technology and brings data to the desktop. It lets underwriters easily access data and reports online so that they can make more timely and more informed decisions.

A further example of our focus on technology is our early endorsement of the Project Blue Mountain initiative to help streamline data.

#### The benefit of our Lloyd's association

Being a member of Lloyd's gives us many advantages and we have certainly made the most of the association through the distribution and branding. Lloyd's offers a broad product line which is attractive to clients throughout the world. As a member, we have the ability to write business in over 140 countries. We are also able to focus on what we are good at – risk taking. This has enabled us to write gross written premium of £438m with just 80 employees.

A further benefit is that we can change our mix of business immediately according to market conditions. The flexibility within our underwriting teams allows us to respond quickly to changes in the market environment.



#### An experienced management and underwriting team

We began trading in 1986 and our management team has been in place since 1993. This has allowed us to build strong business relationships.

Our underwriting teams have many years of experience in their specialist fields. They are empowered and encouraged to build and run their business.

The skills of the non-executive directors also complement our business.

#### We focus on risk-taking

The structure of our business means we are not hindered by excessive bureaucracy as we outsource many of our non-core main activities, so that we can focus on risk-taking and settling claims. These outsourced functions include data input, asset management, human resources and IT maintenance. Using external suppliers has other advantages: we stand to benefit from their fresh thinking, specialist knowledge and excellent quality of service.

#### A positive market environment

We are in a strong position because we have been able to raise capital to develop new business. Even though the world has seen uncertainty since the tragic events of September 11, we have been able to take advantage of market opportunities.

Our underwriting has seen significant rate increases in a period where contract terms and conditions have also tightened. Both these factors have been favourable to our operations.

#### Operating structure

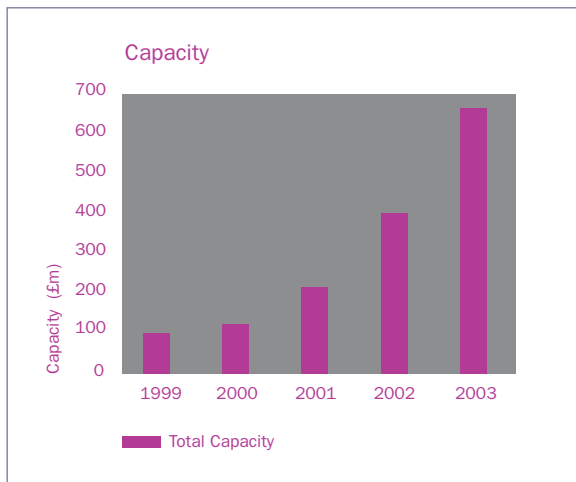
The operating structure of the Beazley Group is set out above.

Beazley Furlonge is the principal operating subsidiary that manages the underwriting operations. As a Lloyd's managing agent, Beazley Furlonge derives its operating revenue from agency fees charged to the underwriting members participating on the syndicate, and from profit commission which is based on the underwriting results of the syndicate. Agency fees currently amount to 0.6% of capacity and profit commission 17.5% of the net profit of the syndicate.

Beazley Underwriting participates as the sole underwriting member of syndicate 2623. This syndicate has underwritten in parallel with syndicate 623 from 1 January 2003. Under the parallel syndicate arrangement, Beazley Furlonge manages both syndicates as a single underwriting unit. All premiums, claims and any reinsurance to close of a prior year of account will be split between the syndicates pro rata to each syndicate's underwriting capacity for the relevant year of account, resulting in identical risk profiles and underwriting profitability levels. For the 2003 year, the split of business between the two syndicates is 50%/50%.

The Beazley Group has limited exposure to prior year losses because of the limited participation on 2002 and prior years.

## Chief executive's review continued



### Capacity structure

The syndicate experienced little capacity growth during a disciplined period before 2000. From that date, prospects for underwriting improved and the market began to grow. Since then, the market has dislocated and grown which therefore required increases in capacity. Consequently, the underwriting capacity managed by the Beazley Group increased to £660m for the 2003 year of account.

The table above shows the growth in underwriting capacity managed by the Beazley Group for the 1999 to 2003 years of account.

The different sources of capital up until the end of 2002 comprise individual names, controlled corporate members and third party corporate members. The Beazley Group had a limited participation up to 31 December 2002 in syndicate 623. In view of the current underwriting opportunities, the Beazley Group now has participation of £330m in 2003. The capital for the additional capacity was provided through the proceeds from the share issue in November 2002.

The group has available a letter of credit facility, to enable it to increase its Funds at Lloyd's (FAL) by up to £30m. Based on our existing risk based capital ratio of 40%, this facility allows syndicate 2623 to write up to £405m of capacity in future years of account.

### Risk management & Reinsurance

Two of the key methods for managing risk for the Group are to manage and monitor business processes, risk aggregation and to purchase reinsurance.

#### Risk management

Risk management remains an underlying focus of the Group. We employ a dedicated function to add value to the control processes and corporate governance. The risk management process is also integrated with the internal audit function through prioritising and scoping internal audit projects.

An established structure of committees, with a cross section of specialist personnel, has responsibility for managing particular risks, including syndicate risk, internal audit, finance, operations, internal review, investment and counterparty security. Each of these committees reports to the board of directors, who set tolerance limits within different business processes.

One of our key tools in managing risk aggregation to the Group is through the use of realistic disaster scenario modelling. This involves deriving a suite of scenarios and



The flow of business continues to be good and we remain focused on our core competencies.

testing the resilience of cash facilities, reinsurance programmes and profit impact. The Group manages aggregate exposures on an ongoing basis such that, in an estimated 'natural catastrophe' scenario with a probability of 1 in 250 years in the US, it is unlikely that the syndicate will sustain an impact of greater than 15% of its allocated underwriting capacity, after the application of relevant reinsurance.

Risk management reviews and monitors operational, strategic and business risks on a continuous basis.

#### Reinsurance

To complement the four underwriting divisions, reinsurance is purchased to protect against catastrophes and help reduce volatility. In addition, reinsurance is used with respect to larger gross lines to enhance its ability to act as lead underwriter while keeping its net exposure in balance with the overall portfolio. This is achieved through a strategy of developing long-term relationships with selected reinsurance partners.

Strict security tests are carried out for reinsurers. At present, separate reinsurance programmes are purchased, with the property and specialty lines coverages being purchased predominantly on a 'risk attaching' basis and the reinsurance and marine coverages being purchased on a 'losses occurring' basis.

#### Investments

Of the net proceeds from the share issue of £138m, £132m has been used as FAL for syndicate 2623, with the balance being used to fund working capital of the new syndicate. FAL is invested in short dated government bonds and commercial paper with an average duration of six months.

The overall investment strategy is to maximise investment returns while stressing diversification of risk, preservation of capital and market liquidity with reference to the overall underwriting profitability of the Group. The Group has used a conservative approach to its investments in the past.

#### Dividend policy

The Directors do not recommend the payment of a dividend.

As stated in the company's prospectus dated 7 November 2002, it is anticipated that the company will commence paying dividends with effect from the interim results for the six months to 30 June 2003, which are expected to be announced in September 2003.