

# 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. It is the intention of the directors that the Beazley Group comply with the Combined Code.

## Compliance with code provisions

The board confirms that the company and the group have complied with the provisions set out in section 1 of the Combined Code for the period since 12 November 2002, when the company's shares were listed on the London Stock Exchange, until 31 December 2002. The 'Schedule of Matters Reserved for the Board' was adopted on 23 April 2003 but the board does not intend to consider the appointment of a senior non-executive director until Mr. Agnew has been appointed chairman at the conclusion of the 2003 annual general meeting.

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 Combined Code referred to above are applied by the group.

## The board

The board consists of a non-executive chairman, Joseph Sargent, together with three independent non-executive directors and six executive directors, of which Andrew Beazley is chief executive. All four 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.

Biographies of board members appear on page 34 of this report. These indicate the high levels and range of business experience which are essential to manage effectively a business of the size and complexity of the group. 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 five times each year, and more frequently where business needs require. The board has a schedule of matters reserved for its consideration, including approval and review of group performance against budgets and other operational risk matters.

There is an agreed principle that directors may take independent professional advice if necessary and 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.

When new members are appointed to the board, they are provided with advice from the company's solicitors in respect of their role and duties as a public company director.

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.

Appointments to the board of both executive and non-executive directors are considered by the nominations committee. The recommendations of the nominations committee are ultimately made to the full board, which considers them before any appointment is made. The remuneration committee considers any remuneration package of executive directors and senior management before it is offered to a potential appointee. The members of the audit, nominations, investment and remuneration committees are set out below.

Any director appointed during the period is required, under the provisions of the company's articles of association, to retire and seek 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 20 to 27. The members of the remuneration committee and the principal terms of reference of the committee appear on page 20.

## Board committees

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

The audit committee comprises Joseph Sargent as chairman, together with Jonathan Agnew, Thomas Sullivan, Dudley Fishburn and George Blunden. The committee considers matters relating to the operational and financial internal controls and financial reporting of the company. It reviews the interim and annual results and the annual report and financial statements prior to their submission to the board. The committee also reviews any matters

raised by the auditors and the internal auditor. The chief executive and the finance director are invited to attend part of each meeting of this committee, as are the auditors. The auditors have unrestricted access to the members of the audit committee.

The nomination committee consists of Joseph Sargent as chairman, together with Jonathan Agnew, Andrew Beazley, Thomas Sullivan and Dudley Fishburn. It will meet as required and will make recommendations to the board on all board appointments, including the selection of non-executive directors.

The investment committee consists of Joseph Sargent as chairman, together with Andrew Beazley, Neil Maidment, Arthur Manners, Jonathan Agnew and George Blunden. The committee makes recommendations to the board regarding the investment policy of the Beazley Group and syndicate operations, including the establishment of investment guidelines and monitoring of performance and compliance with those guidelines.

The remuneration committee comprises Joseph Sargent as chairman, together with Jonathan Agnew, Thomas Sullivan and Dudley Fishburn. Details of the terms of reference of the remuneration committee are discussed further in the directors' remuneration report.

George Blunden was appointed a member of the audit and investment committees on 23 April 2003 as he is a non-executive director of Beazley Furlonge Limited, the managing agent for syndicates 623 and 2623.

#### Shareholder communication

The company places a great deal of importance on communication with shareholders. The full report and accounts and the interim report will be mailed to all shareholders and, on request, 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](http://www.beazley.com) website as a repository for all investor relation matters.

There will be regular dialogue with institutional shareholders as well as general presentations after the preliminary and interim results. All shareholders will have the opportunity to put questions at the company's annual general meeting.

#### Audit and internal control

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on pages 32 and 33, and the statement of the directors on going concern on page 30.

Following the publication of guidance for directors, Internal Control: Guidance for Directors on the Combined Code, (the Turnbull Guidance), the board confirms that there is an ongoing process for identifying, evaluating and managing any compliance issues and significant risks faced by the group. As risk management is integral to the day to day group and syndicate operations, one of the key risk management controls to note is the preparation and review of realistic disaster scenario calculations. The process has been in place since January 2002 and is regularly reviewed 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.

The audit committee, on behalf of the board, has approved the establishment of an internal audit function and the internal audit plan for 2003. The internal auditor reports directly to the audit committee. The terms of reference for this committee include reviewing all internal audit reports.

The audit committee keeps the scope and cost effectiveness of the external audit under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit fees for the period under review is disclosed on page 42. The non-audit fees were paid in respect of the group capital raising and are considered by the audit committee not to affect the auditors' independence or objectivity.