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 are determined by the remuneration committee within the framework of this policy. Directors who were members of the remuneration committee during the six months ended 31 December 2002 were Joseph Sargent, Jonathan Agnew, Thomas Sullivan, whose appointments were confirmed to the committee when it was reconstituted on 6 November, and Dudley Fishburn, who was appointed to the committee on 9 December 2002.

The remuneration committee has access to independent advice where it considers it appropriate. Prior to the initial public offering, a detailed review of all incentive arrangements was carried out by KPMG LLP at the request of the board. This included a review of incentive arrangements in place prior to the IPO, and following the IPO. A representative of KPMG LLP has now been appointed by the remuneration committee as consultant to advise the committee of any ongoing remuneration issues.

Remuneration policy statement

The directors believe that performance related remuneration is an essential motivation to management and staff, and this policy will also form the basis for determining executive directors' remuneration for the forthcoming years.

The company's policy is to remunerate the executive directors and management fairly in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel. The measurement of their performance and the determination of the annual remuneration package of the executive directors is undertaken by the remuneration committee. The main elements of the remuneration package are basic salary, short-term incentive payments, benefits, pension contributions and share option incentives.

The service agreement for each executive director comprises basic remuneration and participation in the pension scheme, together with a component for incentive payments. The incentive payments comprise short-term incentive payments and share options. Incentive payments are awarded on a discretionary basis, and are determined by the remuneration committee in respect of performance. The policy is to ensure that a material proportion of each executive directors' overall remuneration is performance based.

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

In respect of share options the directors believe that a key element of remuneration strategy should be the grant of share options through share incentive plans, to align further the interests of shareholders and participants in the plans. Entitlements under such plans are subject to the achievement of performance conditions as described below under "shareholdings and share options".

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

■ Service contracts

The company has service contracts with its executive directors. It is company policy that such contracts contain notice periods of not more than twelve months.

The service agreements also provide that the directors are entitled to participate in the short term incentive plan and the share incentive arrangements operated by the company, and entitled to participate in the Beazley Furlonge Limited Pension Scheme which is a final salary pension scheme.

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, healthcare membership, season ticket, car parking and the provision of either a company car or a monthly car allowance.

Details of the contracts currently in place for executive directors who have served during the period are as follows:

	Annual salary	Annual benefits	Date of contract	Unexpired term*	Notice period	Provision for compensation
A F Beazley	310,000	15,879	6 Nov 2002	N/a	12 months	Nil
N H Furlonge	220,000	13,197	6 Nov 2002	N/a	12 months	Nil
J G Gray	225,000	10,797	6 Nov 2002	N/a	12 months	Nil
N P Maidment	220,000	14,524	6 Nov 2002	N/a	12 months	Nil
A R Manners	165,000	13,071	6 Nov 2002	N/a	12 months	Nil
J G B Rowell	230,000	11,428	6 Nov 2002	N/a	12 months	Nil

* the Unexpired Term is not applicable as each of the executive directors' contracts are on a rolling annual 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.

Non-executive directors are appointed for fixed terms, normally for three years. The terms of appointment of the non-executive directors are typically through a selection process based upon the candidate that can bring to the group the desired competence and skills.

The board has identified several key competencies 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; and
- Risk management skills.

The company's policy is to ensure that sufficient non-executive directors are appointed to the board who are able to provide all these key competencies.

	Annual Fee £ p.a.	Term of appointment	Expires	Other Income* £ p.a.
J D Sargent	30,000	3 years	6 Nov 2005	20,000
J G W Agnew	20,000	3 years	6 Nov 2005	20,000
T F Sullivan	20,000	3 years	6 Nov 2005	15,000
J D Fishburn	20,000	3 years	6 Nov 2005	15,000

* Other income relates to membership of each non-executive director on board committees (investment, audit, remuneration and nomination committees). Non-executive directors are entitled to £5,000 per annum in respect of their membership of each committee.

Individual aspects of remuneration

■ 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 six-month period were as follows:

	Salary and fees £	Bonus £	STIP £	Benefits £	2002 Shareholders' Pool £	Total for the six months to 31 December 2002 £	Total for the 12 months to 30 June 2002 £
J D Sargent	12,035	–	1,323	–	9,567	22,925	28,000
A F Beazley	158,334	–	58,610	8,223	263,868	489,035	315,317
A R Manners	81,667	50,000	16,367	6,619	38,381	193,034	165,200
N H Furlonge	108,334	–	24,329	6,482	95,951	235,096	219,520
J G Gray	104,167	–	32,987	5,482	131,906	274,542	192,200
N P Maidment	103,333	–	30,669	7,345	115,142	256,489	203,200
J G B Rowell	111,250	–	37,304	5,798	163,117	317,469	219,200
J G W Agnew	7,500	–	398	–	2,879	10,777	–
J D Fishburn	3,000	–	–	–	–	3,000	–
T F Sullivan	5,000	–	–	–	–	5,000	11,000
G Blunden (resigned 18.10.02)	8,750	–	398	–	2,879	12,027	18,000
	703,370	50,000	202,385	39,949	823,690	1,819,394	1,371,637

The benefits comprise those detailed in the service contracts of the executive directors.

The bonus paid to Mr Manners was in recognition of his efforts to secure a successful IPO.

■ Short-term incentive plan (STIP)

The total pool available for distribution to short-term incentive pool participants equals 5.83% of the profits of the syndicates as reported on an annual accounting basis. A proportion of this pool has been allocated among executive directors at the discretion of the remuneration committee.

Based on an agreement with institutional shareholders made prior to the IPO in relation to the overall valuation of the Beazley Group, 11.67% of the 2002 profits of syndicate 623 will be allocated among Beazley employees and directors based on individual shareholdings. This is referred to as the "2002 shareholders' pool". This proportion of 2002 profits will be distributed as bonuses and the profits will be recognised on an annual accounting basis and will be payable over the next three years.

Going forward, the STIP for executive directors and other key executives will continue to be 5.83% of profits of the syndicates for that year of account.

■ Pensions

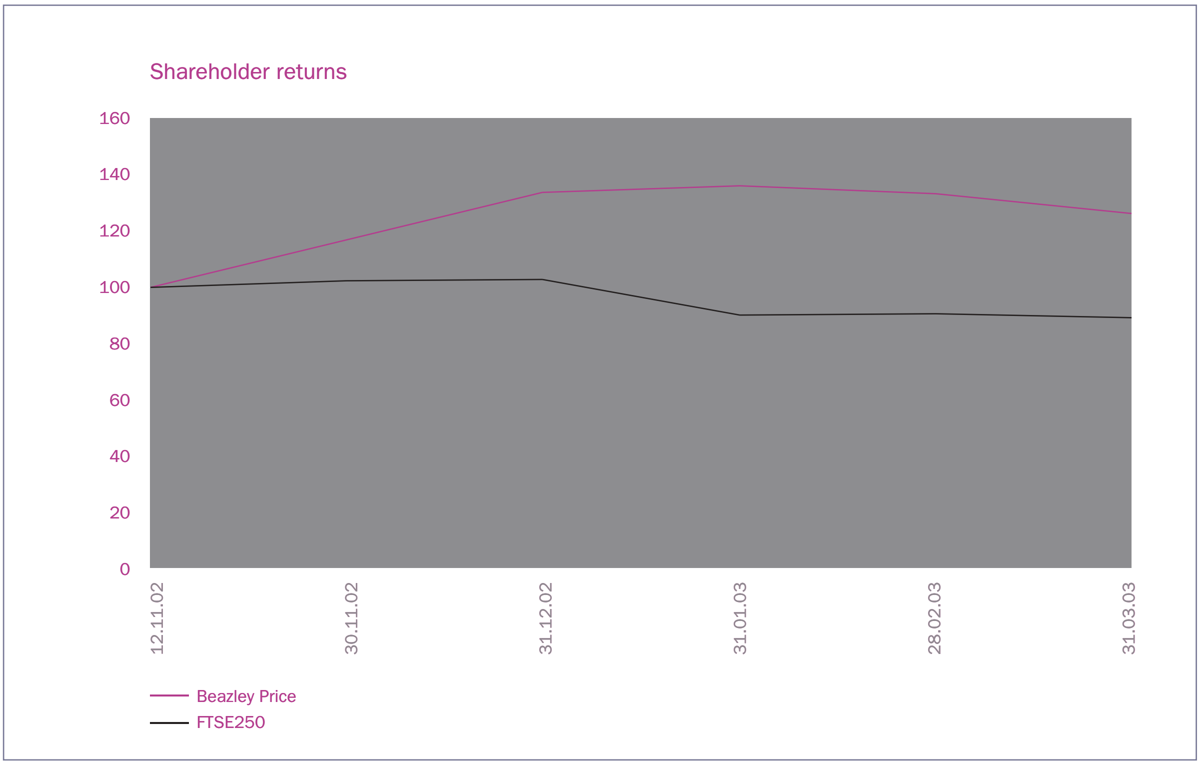
The company provides pension entitlements to directors that are defined benefit in nature. Details of the entitlements of those who served as directors during the period are as follows:

Director	Accrued benefit at 31 Dec 2002 £	Increase in accrued benefits excluding inflation (A) £	Increase in accrued benefits including inflation £	Transfer value of (A) less directors' contributions £	Transfer value of accrued benefit at 1 July 2002 £	Transfer value of accrued benefits at 31 Dec 2002 £	Increase in transfer value less directors' contributions £
A F Beazley	129,167	3,095	23,929	27,586	938,853	1,151,275	212,421
N H Furlonge	101,316	2,236	25,263	23,721	803,888	1,074,824	270,936
J G Gray	16,430	795	795	7,289	138,500	150,638	7,289
N P Maidment	19,742	795	795	4,661	111,074	115,737	4,661
A R Manners	15,105	795	795	5,455	98,298	103,652	5,455
J G B Rowell	16,960	795	795	4,855	98,692	103,564	4,855

All directors participate in the Beazley Furlonge Limited Pension Scheme which is a non-contributory final salary scheme subject to applicable Inland Revenue restrictions. 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.

Total shareholder returns

The performance of the Group's share price since listing on to the London Stock Exchange on 12 November 2002 is shown below. The company has shown the share price performance against the FTSE250 small cap index as this is considered the only appropriate index. The index has been rebased to 100 on 12 November 2002. The chart below is over a short period, and may not be representative of the performance of the company over a longer term. The listing price of 73p on 12 November 2002, compared with a share price of 98p at the period-end. The highest and lowest market prices during the period were 100p and 73p respectively.



Share options and shareholdings

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

	Scheme	At 1 July 2002	Awarded	Exercised	Lapsed	At 31 Dec 2002	Exercise Price	Earliest date of exercise	Expiry date
A F Beazley	Pre-IPO Plan	–	975,288	–	–	975,288	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	238,870	–	–	238,870	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	79,623	–	–	79,623	Nil	6 Nov 2005	6 Nov 2012
N H Furlonge	Pre-IPO Plan	–	401,589	–	–	401,589	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	90,411	–	–	90,411	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	30,137	–	–	30,137	Nil	6 Nov 2005	6 Nov 2012
J G Gray	Pre-IPO Plan	–	803,178	–	–	803,178	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	115,582	–	–	115,582	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	38,527	–	–	38,527	Nil	6 Nov 2005	6 Nov 2012
N P Maidment	Pre-IPO Plan	–	860,548	–	–	860,548	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	113,014	–	–	113,014	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	37,671	–	–	37,671	Nil	6 Nov 2005	6 Nov 2012
A R Manners	Pre-IPO Plan	–	172,110	–	–	172,110	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	67,808	–	–	67,808	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	22,603	–	–	22,603	Nil	6 Nov 2005	6 Nov 2012
J G B Rowell	Pre-IPO Plan	–	573,699	–	–	573,699	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	118,151	–	–	118,151	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	39,384	–	–	39,384	Nil	6 Nov 2005	6 Nov 2012

Details of the ordinary shareholdings of the directors during the period are as follows:

	Number of 'D' class ordinary shares held at 1 July 2002	Number of ordinary shares immediately following the placing*	Number of ordinary shares held as at 31 December 2002	Shareholding as a percentage of the total issued ordinary share capital as at 31 December 2002
J G W Agnew	3,055	72,713	72,713	0.03%
A F Beazley	280,060	6,734,310	6,734,310	2.93%
N H Furlonge	101,839	2,451,307	2,451,307	1.07%
J G Gray	140,000	3,339,043	3,339,043	1.46%
N P Maidment	122,207	2,915,545	2,915,545	1.27%
A R Manners	40,736	969,572	969,572	0.42%
J G B Rowell	173,127	4,120,663	4,120,663	1.80%
J D Sargent	10,154	1,112,760	1,112,760	0.48%
	871,178	21,715,913	21,715,913	9.46%

* there was a redesignation of shareholdings immediately prior to the placing. Details of the redesignation are detailed at Note 17 to the financial statements.

With a total of 229,479,452 issued shares at 31 December 2002, the directors hold 9.46%. It should be noted that a total of 3,128,535 shares are owned by employees (representing a further 1.36% of the issued ordinary shares). The combined director and employee shareholding represents 10.82% of the total shareholding.

■ The pre-IPO plan

Participation in the pre-IPO plan is restricted to employees and full-time executive directors of the Beazley Group. Participants are selected on a discretionary basis. There is no individual limit. No payment is required for the grant of an option.

All options have been granted under this scheme, and no further grants are anticipated. All options under the pre-IPO plan were granted on 6 November 2002. The exercise price per ordinary share is 73p, and options will normally be exercisable (subject to meeting the performance condition set out below) between the third and the tenth anniversaries of grant.

No option may be exercised unless the option has vested. The option will vest if a total shareholder return (“TSR”) (being the increase in price of an ordinary share plus the value of ordinary shares which could be acquired using dividends paid by the company) performance target is achieved. This requires the company’s TSR to be at least 100% measured using an average share price over at least 30 successive trading days during the period from admission to 30 trading days after the announcement of the company’s results for the financial year ending 31 December 2005.

If the performance target is not achieved within this period, the TSR target will be increased by 10% per annum for a further two years. However, only 75% of the ordinary shares under option may be received if the target is achieved within the first year of the additional period and only 50% of the ordinary shares under option may be received if the target is achieved in the second year. If the target is still not achieved after the two additional years, all the options under the plan will lapse.

The above performance conditions were set when the scheme was established by board resolution on 6 November 2002. These conditions were considered appropriate because a target TSR of 100%, while imposing a demanding requirement on the participants, would, if achieved, ensure that shareholders also receive attractive returns.

■ The approved plan

Participation in the approved plan is restricted to employees and full-time executive directors of the Beazley Group. No approved options have been granted to directors although it is likely that such options will be granted in the future. The terms and conditions are consistent with the unapproved plan, except that the plan has been approved by the Inland Revenue.

■ The unapproved plan

Participation in the unapproved plan is restricted to employees and full-time executive directors of the Beazley Group. Participants are selected on a discretionary basis. No payment is required for the grant of an option.

All options under the unapproved plan were granted to directors on 6 November 2002. The exercise price per ordinary share is 73p, and options will normally be exercisable (subject to meeting the performance condition set out below) between the third and the tenth anniversaries of grant.

Performance conditions must normally be met before options can be exercised. The performance conditions for options granted on admission require the company’s net asset value (“NAV”) plus dividends per share to increase as follows over a three year period from 1 July 2002, using the pro forma NAV as at 30 June 2002 as the starting point:

a) 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 average yield of UK gilts with maturity dates within the next five years (commonly known as “shorts”) in the relevant period (the “risk free rate of return”) plus 10% per annum;

b) 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;

c) for NAV plus dividends per share performance between the above targets, the number of ordinary shares over which an option can be exercised will be calculated on a straight line basis;

d) if the option is not fully exercisable at the end of the three year period, it will be re-tested over the 4½ year period. The option is exercisable over whichever is the higher number of ordinary shares produced by performance in the 3½ or 4½ year period.

The option will lapse if NAV plus dividends per share performance is below the risk free rate of return plus 5 per cent. per annum in both periods.

For all options granted other than those set out above, which were granted on admission, a three year period (with re-testing after four years) will be used to measure performance, commencing with the start of the financial year in which the option is granted.

The performance conditions above were set when the Scheme was established by board resolution on 6 November 2002, and are consistent with those incorporated in the Inland Revenue Approved Plan. These performance conditions were considered to be appropriate as, while imposing a demanding requirement on the participants, they would, if achieved, ensure that shareholders also receive attractive returns over the exercise period.

■ The long term incentive plan

All options under the long term incentive plan, which is not approved by the Inland Revenue, were granted to directors on 6 November 2002. Participation in the long term incentive plan is restricted to employees and full-time directors of the Beazley Group. Participants are selected on a discretionary basis. No exercise price is payable. The options will normally be exercisable (subject to meeting the performance condition set out below) between the third and tenth anniversaries of grant.

The extent to which ordinary shares can be received under the long term incentive plan primarily depends upon the company's relative TSR.

The company's TSR will be compared with the TSR of members of a comparator group comprising other 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. No re-testing is possible.

a) If the company's performance is below the median position in the comparator group, no ordinary shares will be received and the options shall lapse immediately;

b) If performance is equal to the median position, 50% of the ordinary shares can be received;

c) If upper quartile performance is achieved, the full number of ordinary shares can be received; and

d) If performance is between the median and upper quartile positions, the number of ordinary shares receivable is calculated on a straight-line basis.

However, ordinary shares can only be received if the remuneration committee is also satisfied that the company has shown sustained financial performance during the measurement period. The remuneration committee will set the appropriate target with reference to the underwriting conditions at the time of grant. In the case of the awards which have been made at Admission, this target is that the cumulative growth in the company's net asset value per ordinary shares plus dividends over a three year period must be at least equal to the risk free rate of return (calculated on the same basis as for the approved plan) plus 5% per annum.

The long term incentive plan performance conditions were set when the scheme was established by board resolution on 6 November 2002, and are based upon comparing the group's performance with a specific industry sector. These conditions were considered appropriate because they reward specific over-performance on a sector basis.

Details of entitlements (which are currently all provisional) under the long term incentive plan of directors who served during the period are set out below. All provisional awards during the period were made when the share price was 73p. In order for the awards to vest it will be necessary for the performance conditions set out above to be met. Further details of directors' interests in share capital can be found in the table on page 24.

Interests are granted provisionally and remain subject to performance conditions over the life of the plan before vesting unconditionally, as described above. No provisional awards were exercised during the period as none vested unconditionally during the period.

	Interest at 1 July 2002	Number of ordinary shares under option	Vested	Interest at 31 Dec 2002	Period of qualifying conditions
A F Beazley	–	79,623	Nil	79,623	3 years prior to being exercised for the period up until 6 November 2012
N H Furlonge	–	30,137	Nil	30,137	3 years prior to being exercised for the period up until 6 November 2012
J G Gray	–	38,527	Nil	38,527	3 years prior to being exercised for the period up until 6 November 2012
N P Maidment	–	37,671	Nil	37,671	3 years prior to being exercised for the period up until 6 November 2012
A R Manners	–	22,603	Nil	22,603	3 years prior to being exercised for the period up until 6 November 2012
J G B Rowell	–	39,384	Nil	39,384	3 years prior to being exercised for the period up until 6 November 2012

Shareholder approval has been given for the introduction of a SAYE scheme. It is expected to be initiated in May 2003.

Related party transactions

The following directors participated on syndicate 623 through NameCos for the 2002 year of account:

	2001 year of account £	2002 year of account £
A F Beazley	1,000,000	1,100,000
A R Manners	375,000	375,000
J G B Rowell	1,000,000	1,000,000
J D Sargent	600,000	848,000

Mr Furlonge has a shareholding of approximately 5% in D3 Human Resources Limited which provides Beazley Group plc with consultancy advice on training. D3 Human Resources Limited receives fees, on normal commercial terms, for the services it provides to the Beazley Group.

Mr Sullivan is a director of SP004, which was incorporated as a subsidiary of Aon Corporation, Inc (“Aon”) for the purpose of Aon’s investment in Beazley Group plc. He is no longer a director of any Aon operating subsidiaries. Mr Sullivan did not take part in the resolution to approve, or any discussions concerning, the subscription by SP004 of ordinary shares.

Mr George Blunden is a non-executive director of Beazley Furlonge Limited, and is a director of Alliance Capital Limited. Alliance Capital Limited provide investment management advice to the Beazley Group.

Annual general meeting

A resolution will be proposed at the forthcoming annual general meeting to be held on 12 June 2003 to approve this directors’ remuneration report.

By order of the Board

JP Gorman FCA
Company Secretary
One Aldgate
London EC3N 1AA

23 April 2003