In accordance with Regulation 32 of the Overseas Companies Regulations 2009.

301657/20

DON'T STAPLE

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ What this form is for
You may use this form to accompany your accounts disclosed under parent law.

✗ What this form is NOT for
You cannot use this form to r… an alteration of manner of co… with accounting requirement…

WEDNESDAY

ABB3TNHL
A05 24/08/2022 #118
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ❶	Beazley Insurance designated activity company
UK establishment number	B R 0 1 9 7 0 5

→ Filling in this form
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

❶ This is the name of the company in its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and audited.

Legislation ❷	Companies Act 2014

❷ This means the relevant rules or legislation which regulates the preparation of accounts.

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3.**

☑ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3.**

Name of organisation or body ❸	Financial Reporting Council

❸ Please insert the name of the appropriate accounting organisation or body.

OS AA01

Statement of details of parent law and other information for an overseas company

A3 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box. ☐ **No.** Go to **Part 3 'Signature'**. ☑ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.	❶ Please insert the name of the appropriate accounting organisation or body.
Name of organisation or body ❶	Irish Auditing and Accounting Supervisory Authority	

Part 3 Signature

	I am signing this form on behalf of the overseas company.
Signature	Signature X [signature] X
	This form may be signed by: Director, Secretary, Permanent representative.

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	RUTH YEOMAN
Company name	Beazley Group
Address	22 BISHOPSGATE
Post town	LONDON
County/Region	
Postcode	E C 2 N 4 B Q
Country	UNITED KINGDOM
DX	
Telephone	

Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.

Important information

Please note that all this information will appear on the public record.

Where to send

You may return this form to any Companies House address:

England and Wales:
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1

Northern Ireland:
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.

Further information

For further information, please see the guidance notes on the website at www.gov.uk/companieshouse or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.gov.uk/companieshouse

BEAZLEY INSURANCE DESIGNATED ACTIVITY COMPANY

(FC034613)

UK branch registration number BR019705

ANNUAL REPORT AND ACCOUNTS 2021

Explore. Create. Build...

Beazley Insurance dac | Annual report and accounts 2021
Company number: 464758

Welcome to our Annual report 2021

Beazley Insurance dac is a non-life insurance company that reinsures and provides capital to support the underwriting activities of Beazley Underwriting Limited in the Lloyd's market. The company also writes non-life insurance through its European branch network.

Contents

Highlights

Gross premiums written

$317.7m

(2020: $115.2m)

Net investment income

$57.3m

(2020: $83.0m)

Earned premiums, net of reinsurance

$230.6m

(2020: $72.3m)

Cash and investments

$1,774.6m

(2020: $1,731.5m)

Profit after tax for the financial year

$195.0m

(2020 loss: $40.9m)

Solvency coverage ratio

217%

(2020: 192%)

Report of the directors

The directors submit their report, together with the financial statements of Beazley Insurance dac (the company) for the year ended 31 December 2021.

Company purpose and vision

In 2021, the Beazley group undertook a strategic review of its business purpose leading us to restate it as 'enabling you to explore, create and build, by investing in understanding the complexity of the risks our clients face and deploying our expertise where we can create value'. The group will succeed in its purpose by building an expert team, backed by outstanding tools and a responsible approach to business that offers clients real service and protection from a complex and uncertain world. That's why we've invested in protecting the well-being of our colleagues and empowering our team, and why the coming years will see infrastructure renewal and the ramping up of our data capabilities, so we have the operating platform and tools we need to underpin the next phase of growth. The company, as a core part of the group, employs this strategy.

We are passionate about serving all our stakeholders, our colleagues, our clients, brokers and shareholders, and offering them the protection they need to achieve our shared business goals. With our renewed purpose established we have realigned our vision for the company and the group to be the highest performing sustainable specialist insurer.

Principal activities and business review

In July 2017, the company received authorisation from the Central Bank of Ireland to convert from a reinsurance company into a non-life insurance company permitted to transact business throughout Europe. The company operates a branch network in the United Kingdom, France, Germany, Spain and Switzerland and operates across Europe on a freedom of services basis.

The company also continues to act as an intra-group reinsurer and provides capital to support the underwriting activities of its sister company, Beazley Underwriting Limited. Beazley Underwriting Limited is a Lloyd's of London corporate member. It participates in the Lloyd's insurance market on a limited liability basis through syndicates 2623, 3622 and 3623. Beazley Underwriting Limited cedes 75% of the final declared result (less a retention of $4m) of its participation in syndicates 2623 and 3623 to the company. In the event that the declared result is a loss, the extent of the reinsurance is limited to the loss in excess of $4m not exceeding 75% of the Funds at Lloyd's.

The company also has a credit facility agreement with Beazley Underwriting Limited. Under this agreement, the company provides up to 25% of Beazley Underwriting Limited's total required Funds at Lloyd's.

The company performed strongly in 2021, delivering pre-tax profits of $219.3m (2020 pre-tax loss of $47.6m). The challenge of COVID-19 claims incurred through the intra-group reinsurance contracts receded and the related loss reserves booked in 2020 remained robust. Our direct business incurred a pre-tax loss of $4.7m driven by natural catastrophe loss activity as a result of German floods.

From an operational perspective, the company has invested significantly in the resilience of its workforce, ensuring they can all work remotely, and are able to be flexible about how, when and where they work. Since the outbreak of the pandemic the company's workforce have largely continued to work remotely, however there has been a slow move back to the office in certain locations. The group and company's boards continue to monitor the situation and are able to activate continuity plans at short notice.

Through 2021, the company continued to invest in and develop its business across Europe. Premiums from the company's non-life insurance and reinsurance business carried out through its branches grew from $91.0m in 2020 to $206.6m in 2021. The balance of premiums written relates to our intra-group reinsurance contracts with Beazley Underwriting Limited. The company's UK branch was approved by the PRA as a third country branch in October 2021. Our Swiss branch obtained new licence permissions during the year to write aircraft, air liability, and fire and natural hazards risks.

2021 was another year that the reality of climate change was felt with multiple large natural catastrophes including the floods in Europe and wildfires across the globe impacting the company both through the intra-group reinsurance contracts and direct business. The company and the group are focused on how we can play our part in addressing the climate crisis. In March 2021, the group launched its first Responsible Business Strategy.

Principal activities and business review *continued*

This document, and the subsequent update which is published alongside the Beazley plc Annual Report and Accounts, sets out the goals and targets across a wider range of Environmental, Social and Governance (ESG) issues, including climate change. In addition to the summary Responsible Business Report, Beazley plc has disclosed its compliance with the TCFD's recommendations and recommended disclosures at the consolidated group level in the Beazley plc Annual Report and Accounts. The 2021 Beazley Annual Report and Accounts can be found at www.beazley.com.

Future developments in the business

The reinsurance contract for 2022 was signed by the company and Beazley Underwriting Limited on 22 December 2021.

The company plans to grow and expand its non-life insurance/reinsurance business across Europe through additional underwriting capability through our expanded branch network. The company is also looking to enter into an increased number of delegated underwriting agreements in 2022 as it continues to expand its underwriting capability in Europe. On 1 January 2022, the group established a new digital business unit, Beazley Digital. Beazley Digital has adopted a clear client-centric approach that segments business by the channels that clients choose and uses technology and expert multi-skilled teams to create and build insurance solutions for them and their brokers. The division's strategy is based around five core principles - minimum touch, access to specialists, organised around customers, data driven insight, and striving for better.

Principal risks and uncertainties

Due to the nature of its activities, the principal risks and uncertainties of the company are aligned with those of 'Beazley plc' (the group) and include:

- Insurance risk
- Asset risk
- Operational risk
- Liquidity risk
- Credit risk
- Group risk
- Regulatory and legal risk
- Strategic risk

The impact of COVID-19, climate change, and Brexit has been considered as part of the above risks. The company operates a risk management framework, within which risk appetite is defined, risks assumed are identified and managed and key controls are implemented and monitored. Additional information in relation to the company's risk management objectives and policies is included in note 2 of the financial statements.

Key performance indicators (KPIs)

The company generated a profit before tax of $219.3m (2020 loss: $47.6m). The company's return on equity for the year was 16% (2020: negative 4%), which was largely driven by the positive performance of the intra-group reinsurance contracts in 2021. The company has seen premiums from its non-life insurance and reinsurance business carried out through its branches grow from $91.0m in 2020 to $206.6m in 2021 and we anticipate further growth in 2022. The company increased its product offering and underwriting capability through its branch network. The balance of premiums written relates to our intra-group reinsurance contracts. Further information on the breakdown of our performance between direct insurance and intra-group reinsurance can be found in note 3 to the financial statements.

The company maintained a strong capital position throughout 2021, with an SCR coverage ratio of 217% as at 31 December 2021. The company had net investment income of $57.3m (2020: $83.0m) and a claims ratio on its direct business of 80% (2020: 70%). The claims ratio on direct business was impacted adversely by the European flood activity that occurred during the year. With the spike in claims incurred through the intra-group reinsurance contracts in 2020 due to the COVID-19 pandemic, 2021 delivered a claims environment which was more in line with expectations, with the estimate for first party COVID-19 claims remaining at $340m at a group level ($255m at a company level). This assumption was always based on a resumption to some form of normality in the second half of 2021, and it is pleasing to see this assumption holding. Whilst there is a small amount of exposure through the intra-group reinsurance contracts to the ongoing pandemic in 2022 and beyond, where cover was bought well in advance, at a reinsured syndicate level, these are discrete policies and are taken account of within all guidance.

Report of the directors *continued*

Results and dividends

The result for the year is shown on the profit or loss account on pages 15 and 16. The company declared an interim dividend in July 2021 of $40.0m (2020: $nil) to its sole shareholder Beazley Ireland Holdings plc.

Directors

The names of the persons who were directors at any time during the year ended 31 December 2021 are set out below:

Director	
A P Cox (British)	(Non-executive) (Appointed 26 May 2021)
D A Horton (British)	(Non-executive) (Resigned 31 March 2021)
E J McGivney	
S M Lake (British)	
P O DeSaulle (French) (chairperson from 30 September 2021)	(Independent non-executive chairperson)
C M Woods (chairperson until 30 September 2021)	(Independent non-executive) (Resigned 30 September 2021)
I C Stuart	(Independent non-executive) (Resigned 5 February 2021)
K P Murphy	(Independent non-executive)
M Moore	(Independent non-executive) (Appointed 6 September 2021)
P Ruane	(Independent non-executive)

Directors and secretary and their interests

The directors and secretary who held office at 31 December 2021 had no interests greater than 1% in the shares of, or debentures or loan stock of, the company or group companies at the beginning (or date of appointment, if later) or end of the year (2020: nil).

Statement of directors' responsibilities

The directors are responsible for preparing the report of the directors' and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance contracts. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company and of its profit or loss for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

In assessing the company's ability to continue as a going concern, the directors have considered the company's capital position, business plans, cash flow and liquidity, and broader external and internal business factors including the impact of the ongoing COVID-19 pandemic and climate risk on the company. The directors are satisfied that the assessment of the company as a going concern is reasonable.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the company and enable them to ensure that the financial statements comply with the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

Statement of directors' responsibilities *continued*

They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a directors' report that complies with the requirements of the Companies Act 2014. As required by Section 167 of the Companies Act 2014 (the '2014 Act'), the company confirms that it has established an audit committee, which assists the board in carrying out its oversight and control obligations.

Relevant audit information

We confirm that to the best of our knowledge:

- so far as the directors are aware, there is no relevant audit information of which the company's statutory auditors are unaware; and
- the directors have taken all the steps that he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's statutory auditors are aware of that information.

Statement of directors' compliance

The directors of the company acknowledge that they are responsible for securing the company's compliance with its relevant obligations (as defined in the 2014 Act) and, as required by Section 225 of the 2014 Act.

The directors confirm that:

- a compliance policy statement setting out the company's policies with regard to complying with the relevant obligations under the 2014 Act has been prepared;
- arrangements and structures have been put in place that they consider sufficient to secure material compliance with the company's relevant obligations; and
- a review of the arrangements and structures has been conducted during the financial year to which this directors' report relates.

Accounting records

The directors believe that they have complied with the requirements of sections 281 to 285 of the Companies Act, 2014 with regard to accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the company are maintained at 2 Northwood Avenue, Santry, Dublin 9 (D09 X5N9).

Political donations

The company made no political donations during the financial year ended 31 December 2021 or 31 December 2020.

Central Bank of Ireland Corporate Governance Code

The company is subject to the Corporate Governance Requirements for Insurance Undertakings issued by the Central Bank of Ireland. The company is not required to comply with the additional requirements for major institutions.

Post balance sheet events

On 3 March 2022, the board approved a dividend of $105m payable to its sole shareholder, Beazley Ireland Holdings plc. As a non-adjusting post balance sheet event, this dividend has not been reflected in the company's financial statements for the year ended 31 December 2021. Also, effective 1 February 2022, J Dunne was appointed to the board as an executive director. As of 1 February 2022, S M Lake has moved from the role of executive director to the role of group non-executive director.

The company and the group continue to closely monitor the potential impact of the ongoing conflict in Ukraine, both from an investment asset and a claims liability perspective.

Auditor

The auditors, Ernst and Young, Chartered Accountants, were appointed as the Company's auditor on 25 June 2019 in accordance with section 383(2) of the Companies Act 2014. This followed a selection procedure in accordance with Article 16(3) of Regulation (EU) No 537/2014 in respect of the appointment of the audit firm.

On behalf of the board

Pierre-Olivier Desaulle	Ed McGivney
Director	**Director**

31 March 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Beazley Insurance dac ('the Company') for the year ended 31 December 2021, which comprise the Profit or loss account, Statement of changes in equity, Balance sheet, and notes to the financial statements, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (Generally Accepted Accounting Practice in Ireland).

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard as applied to public interest entities issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of management's Going Concern assessment process and how key factors were considered in their assessment;
- We obtained management's going concern assessment which covers the period up to 31 March 2023, which incorporates the Company's business plans and solvency capital requirements, including modelling a number of scenarios within their assessment;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

- We examined the factors and assumptions included in these scenarios and the business plan including the impact of COVID-19 on the forecasts. We considered the appropriateness of the methods used by Company in the business plan and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriate for the Company;

- We reviewed the Company going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

Report on the audit of the financial statements

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for reinsurance result in line with treaty arrangements **Net Earned Premium** **(2021: $111.1m 2020: $24.2m)** **Change in claims incurred** **(2021: $116.9m 2020: -$116.1m)** Refer to the Accounting policies in Note 1 of the Financial Statements and Note 3 Due to the nature of the entity, premiums written are recorded based on the declared result from the syndicates. The results of the Company are dependent on calculations of the cedant's financial reporting, in line with the treaty terms. There is a risk of errors in these calculations or reported results which could lead to a misstatement of premiums (net of reinsurance) and claims of the reinsurance business.	To obtain sufficient audit evidence to conclude on the accounting for the reinsurance treaty we: - obtained an understanding of the terms of the reinsurance treaty with the cedant, Beazley Underwriting Limited (BUL); and - tested the calculation of the premiums and claims recorded on the reinsurance business with reference to the reinsurance treaty and the key data inputs from BUL such as the declared results of the syndicates.	We completed our planned procedures and have no material matters to report.

Opinion

We have audited the financial statements of Beazley Insurance dac ('the Company') for the year ended 31 December 2021, which comprise the Profit or loss account, Statement of changes in equity, Balance sheet, and notes to the financial statements, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (Generally Accepted Accounting Practice in Ireland).

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard as applied to public interest entities issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of management's Going Concern assessment process and how key factors were considered in their assessment;
- We obtained management's going concern assessment which covers the period up to 31 March 2023, which incorporates the Company's business plans and solvency capital requirements, including modelling a number of scenarios within their assessment;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of claims liabilities **Gross claims liabilities:** **(2021: $223.4m** **2020: $220.4m)** **Net claims liabilities:** **(2021: $169.0m** **2020: $205.5m)** Refer to the Accounting policies in Note 1 and to Note 13 of the Financial Statements. Gross and net claims liabilities are inherently uncertain and subjective in nature, and therefore subject to a greater degree of risk of misstatement than other balances. The assumptions deriving IBNR involve a significant degree of expert judgement in setting Management's estimates. In addition loss reserve estimates for certain classes of business can be based on limited data.	To address the risk within the valuation of claims liabilities, we: - Obtained an understanding and tested the design effectiveness of key controls over management's process in respect of the valuation of claims liabilites including the setting and updating of actuarial assumptions. Tested the operating effectiveness of controls over reported claims; - Assessed and challenged the reserving methodology on both a gross and net of reinsurance basis including comparing the reserving methodology with industry practice; - Performed independent re-projections of claims liabilities applying our own assumptions, on a sample basis; - Challenged and assessed whether the key assumptions applied to key areas of uncertainties were appropriate based on our knowledge of the Company, industry practice and regulatory and financial reporting requirements; - Considered the impact of COVID-19 within the incurred position, and benchmarked the Company's COVID-19 reserves against external data sources.	We completed our planned procedures and have no material matters to report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.
We determined materiality for the Company to be $12.4 million (2020: $10.8 million), which is 1% (2020: 1%) of Equity. We believe that Equity provides us more stable basis of materiality and as the primary stakeholders are mainly concerned about solvency and capital position of the Company.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.
On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely $9.3 million (2020: $8.1 million). We have set performance materiality at this percentage due to nature of the industry in which the Company operates.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.
We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.6 million (2020: $0.5 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.
We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

An overview of the scope of our audit report

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report of the Directors and Directors' Responsibilities Statement other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

In our opinion, based solely on the work undertaken in the course of the audit, we report that:

- the information given in the directors' report is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

***Opinions on other matters prescribed by the Companies Act 2014* (continued)**

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act, which relate to disclosures of directors' remuneration and transactions are not complied with by the Company. We have nothing to report in this regard.

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 4 to 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework that give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the parent Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are Generally Accepted Accounting Practice in Ireland including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts', the Companies Act 2014 and the EU (Insurance and Reinsurance) Regulations 2015 (the Solvency II Directive).

- We understood how the Company is complying with those frameworks by making enquiries of Management, internal audit, and those responsible for legal and compliance procedures. We corroborated our enquiries through our examination of board minutes, papers provided to the Audit Committee and correspondence with regulatory bodies.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by including through enquiries of Management to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved an examination of board minutes to identify any non-compliance with laws and regulations, an examination of the reporting to the Audit Committee on compliance with regulations and enquiries of Management.

- The Company operates in the insurance industry which is a highly regulated environment. As such, the Audit Engagement Partner considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of experts where appropriate.

- As the insurance industry is highly regulated, we have obtained an understanding of the regulations and the potential impact on the Company and in assessing the control environment we have considered the compliance by the Company with these regulations as part of our audit procedures, which included an examination of correspondence with regulatory bodies.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY INSURANCE DAC

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by board of directors in August 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report,

CMcKenna

Ciara McKenna
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm

Office: Dublin

Date: 31 March 2022

Profit or loss account

for the year ended 31 December 2021

Technical account – non-life insurance business

	Notes	2021 $m	2020 $m
Gross premiums written	3	317.7	115.2
Written premiums ceded to reinsurers		(56.4)	(19.3)
Net premiums written		**261.3**	**95.9**
Change in the gross provision for unearned premiums	13	(47.0)	(29.8)
Reinsurer's share of change in the provision for unearned premium	13	16.3	6.2
Change in net provision for unearned premiums		**(30.7)**	**(23.6)**
Net earned premiums	3	**230.6**	**72.3**
Investment return transferred from the non-technical account	4	58.9	84.3
Revenue		**289.5**	**156.6**
Gross claims paid		(8.6)	(2.4)
Reinsurers' share of claims paid		1.5	0.1
Claims paid net of reinsurance		**(7.1)**	**(2.3)**
Change in gross provision for claims	13	(13.7)	(158.2)
Reinsurer's share of change in provision for claims	13	41.8	10.9
Change in the net provision for claims		**28.1**	**(147.3)**
Claims incurred net of reinsurance		**21.0**	**(149.6)**
Net operating expenses	5	(54.0)	(26.5)
Investment charges transferred from the non-technical account	4	(1.6)	(1.3)
Balance on the technical account		**254.9**	**(20.8)**

Profit or loss account

for the year ended 31 December 2021

Non-technical account

	Notes	2021 $m	2020 $m
Investment income	4	58.9	84.3
Investment return transferred to the non-life technical account		(58.9)	(84.3)
Investment expenses	4	(1.6)	(1.3)
Investment expenses transferred to the non-life technical account		1.6	1.3
Finance costs	18	(31.6)	(31.6)
(Loss)/profit on foreign exchange		(4.0)	4.8
Profit/(loss) on ordinary activities before taxation		**219.3**	**(47.6)**
Tax (expense)/credit on profit/(loss) on ordinary activities	7	**(24.3)**	**6.7**
Profit/(loss) for the financial year		**195.0**	**(40.9)**

The company's operating activities all relate to continuing operations.

The notes on pages 20 to 45 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2021

	Notes	Capital contribution $m	Foreign exchange reserve $m	Retained earnings $m	Total equity $m
Balance as at 1 January 2021		536.3	(43.1)	643.5	1,136.7
Profit for the financial year		–	–	195.0	195.0
Foreign exchange translation differences	12	–	(1.7)	–	(1.7)
Dividend paid	12	–	–	(40.0)	(40.0)
Balance as at 31 December 2021		**536.3**	**(44.8)**	**798.5**	**1,290.0**

	Notes	Capital contribution $m	Foreign exchange reserve $m	Retained earnings $m	Total equity $m
Balance as at 1 January 2020		536.3	(42.9)	684.4	1,177.8
Loss for the financial year		–	–	(40.9)	(40.9)
Foreign exchange translation differences		–	(0.2)	–	(0.2)
Dividend paid	12	–	–	–	–
Balance as at 31 December 2020		**536.3**	**(43.1)**	**643.5**	**1,136.7**

The notes on pages 20 to 45 form part of these financial statements.

Balance sheet

as at 31 December 2021

	Notes	2021 $m	2020 $m
Assets			
Investments			
Financial assets designated at fair value through profit or loss	2, 8	1,693.9	1,722.5
		1,693.9	**1,722.5**
Reinsurer's share of technical provision			
Provision for unearned premiums, reinsurer's share	13	26.0	10.8
Claims outstanding, reinsurer's share	13	54.4	14.9
		80.4	**25.7**
Debtors			
Amounts due from group companies	16	180.4	125.0
Debtors arising from direct insurance operations		68.6	42.4
Debtors arising from reinsurance operations	14	111.1	24.2
Deferred tax asset	7	4.1	1.2
Current tax receivable	9	-	11.8
		364.2	**204.6**
Cash and cash equivalents	10	**80.7**	**9.0**
Prepayments and accrued income			
Deferred acquisition costs	11	20.0	14.0
Other prepayments and accrued interest		5.5	7.2
		25.5	**21.2**
Total assets		**2,244.7**	**1,983.0**

Balance sheet

as at 31 December 2021

	Notes	2021 $m	2020 $m
Equity			
Capital and reserves			
Called up share capital – presented as equity	12	–	–
Capital contribution	12	536.3	536.3
Foreign exchange translation reserve	12	(44.8)	(43.1)
Profit or loss account	12	798.5	643.5
Shareholders' funds attributable to equity interests		**1,290.0**	**1,136.7**
Liabilities			
Technical provisions			
Provision for unearned premium	13	93.0	51.3
Claims outstanding	13	223.4	220.4
		316.4	**271.7**
Creditors			
Accruals and deferred income		12.9	9.6
Current tax payable	9	14.1	–
Creditors arising from direct insurance operations		26.5	–
Other creditors		31.8	14.9
		85.3	**24.5**
Financial liabilities	2, 8, 18	**553.0**	**550.1**
Total liabilities		**954.7**	**846.3**
Total equity and liabilities		**2,244.7**	**1,983.0**

Approved on behalf of the board of directors:

Pierre-Olivier Desaulle
Director

Ed McGivney
Director

31 March 2022

The notes on pages 20 to 45 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2021

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. There have been no material changes to accounting policies during the year.

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102, (the Financial Reporting Standard applicable in the UK and Republic of Ireland) (FRS 102) and Financial Reporting Standard 103 (Insurance Contracts) (FRS 103). All amounts disclosed in the financial statements are presented in US dollars and millions, unless otherwise stated.

The financial statements comply with the European Union (Insurance Undertakings: Financial Statements) Regulations 2015, and the Companies Act 2014.

Under FRS 102.1.12(b), the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the voting rights of the company are controlled within the group headed by Beazley plc, the company has taken advantage of the exemption contained in FRS 102.33.1A and has therefore not disclosed transactions with entities which form part of the group. The consolidated financial statements of Beazley plc, within which this company is included, can be obtained from the registered address listed on page 46 of these accounts.

(b) Basis of accounting for insurance/reinsurance activities

As noted on page 2, the company undertakes both insurance and reinsurance activities. The company writes direct insurance through a network of European branches and has an aggregate excess of loss reinsurance agreement with Beazley Underwriting Limited.

Under the terms of these intra-group reinsurance agreements the company reinsures and indemnifies Beazley Underwriting Limited in respect of all losses up to 75% of the declared result of Beazley Underwriting Limited's participation in syndicates 2623 and 3623 (subject to a $4m excess). In the event that the declared result is a loss, the extent of the reinsurance is limited to the loss in excess of $4m not exceeding 75% of the Funds at Lloyds. The underwriting results relating to this reinsurance contract are determined on an annual basis. Results under this contract reported on an annual basis recognise profits or losses as they are earned instead of at the closure of a particular Lloyd's year of account, normally after three years.

The excess of loss cede is reflected in the profit or loss account in accordance with the definition of premium and the limits of liability contained in the excess of loss agreement. This treatment results in each contract being accounted for as either a single premium or outstanding claim balance depending on whether the declared result of the syndicates is a profit or a loss. In this regard, the company will recognise a premium receivable when an underlying reinsurance contract is in a profitable position at the reporting date, and will show an outstanding claim reserve when an underlying contract is in a loss making position at the reporting date. Movements in premium receivables and outstanding claims reserves will be shown through the profit and loss account and outlined in further detail through the notes to the financial statements.

As the premium/claim balance presented in the profit or loss account represents the company's share of the profit or loss before tax of the syndicates, premium earnings adjustments and expense deferrals in respect of the underlying syndicate business have already been recognised through the premium or claims recognised under the contract. In this regard, the company's balance sheet does not contain technical balances such as deferred acquisition costs and the provision for unearned premium relating to these reinsurance contracts.

Profit commissions and financing fees, included in the terms of the reinsurance agreements, are accounted for separately and are included in operating expenses and investment income in the profit or loss account.

1 Principal accounting policies *continued*

(b) Basis of accounting for insurance/reinsurance activities *continued*

Premiums

Gross premiums written represent:

- premium as defined in the aggregate excess of loss reinsurance agreement (see note 1(b) above) with Beazley Underwriting Limited.
- direct insurance premiums written through branches located in Europe.

For completeness, a premium is recognised by the company under an intra-group reinsurance contract if at the reporting date, the underlying result of the syndicates is a profit (and in excess of $4m). If the underlying result of the syndicate is loss making at the reporting date, only a minimum premium of £100 will be recognised.

In relation to direct insurance, gross premiums written are stated before deduction of commissions but exclusive of taxes, duties levied on premiums and reinsurance deductions; and outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business except in relation to excess of loss contracts, where the initial premium is charged when paid.

Unearned premiums represent the proportion of premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Claims incurred

Claims incurred represent all claims payments and internal and external settlement expense payments made by the company in the financial year and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation expenses. Where appropriate, statistical methods have been applied to past experience of claims frequency and severity. Included in the movement in the provision for outstanding claims is the movement in claims reserves relevant to the reinsurance contracts with Beazley Underwriting Limited, as defined by the aggregate excess of loss agreement (see note 1(b) above) with that company.

Claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

1 Principal accounting policies *continued*

(b) Basis of accounting for insurance/reinsurance activities *continued*

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Claims provisions include claims reserves as calculated in accordance with the definition of the limit of liability contained in the aggregate excess of loss agreement with Beazley Underwriting Limited. To the extent that a claim provision is recognised on an open contract at the reporting period, it is reflected as an outstanding claim reserve, which may increase or decrease depending on the final declared results of the syndicates under the relevant reinsurance contracts.

Claims provisions are also recognised for direct insurance/reinsurance written through branches in Europe, net of any estimates of amounts that will be recoverable from reinsurers having due regard to collectability.

Deferred acquisition costs

Deferred acquisition costs represent the deferral of costs of writing premium through branches in Europe.

Acquisition costs incurred comprise brokerage, premium levies and staff-related costs of underwriters acquiring new business and renewing existing contracts. The proportion of acquisition costs in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

Use of estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Estimates which are sensitive to change in future economic conditions could be impacted by significant changes in the economic and regulatory environment, such as COVID-19, climate change, and Brexit.

Specific to climate change, since responses to it are still developing, it is not possible to consider all possible future outcomes when determining asset and liability valuations, and timing of future cash flows, as these are not yet known. Nevertheless, the current management view is that reasonably possible changes arising from climate risks would not have a material impact on asset and liability valuations at the year-end date.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most critical estimates included within the company's financial statements are the estimates for the fair value of investments and the estimate of the premium receivable or claims provision arising under the intra-group reinsurance contracts and direct insurance business. Further information about our investment portfolio can be found at note 2 and note 8 of the financial statements. Information on the premium receivable and claims provisions can be found at notes 13 and 14.

(c) Financial instruments

Financial instruments are recognised in the balance sheet at such time that the company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the company's obligations specified in the contract expire, are discharged or cancelled. Purchases and sales of financial assets are recognised on the trade date, which is the date the company commits to purchase or sell the asset. In recognising and measuring financial instruments, the company has adopted IAS 39 (as permitted by FRS 102).

Financial assets and liabilities

On acquisition of a financial asset and liabilities, the company is required to classify the assets and liabilities into the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, assets held to maturity and assets available for sale. The company does not make use of the held to maturity and available for sale classifications.

1 Principal accounting policies *continued*

(c) Financial instruments *continued*

Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading and those designated at fair value through profit or loss at inception.

Financial assets and liabilities held for trading are those assets which are acquired principally for the purpose of selling in the short term, or which are held as part of a portfolio in which there is evidence of short-term profit taking or if it is designated so by management. At present all derivatives are classified as held for trading by the company.

All non-derivative financial investments are designated as fair value through profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to key management. The investment strategy is to invest and evaluate their performance with reference to their fair values.

Fair value measurement

Fair value is the amount for which an asset and liability could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the company has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the company and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the company believes a third-party market participant would take them into account in pricing a transaction.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value are recognised in profit or loss account when incurred. Financial assets at fair value through profit or loss are continuously measured at fair value, and changes therein are recognised in the profit and loss account. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income.

1 Principal accounting policies *continued*

(c) Financial instruments *continued*

Investment income

Investment income consists of dividends, interest, fees from intercompany financing arrangements, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets or liabilities at fair value through profit or loss. Interest is recognised on an accruals basis for financial assets or liabilities at fair value through profit or loss. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the balance sheet date, and the carrying value at the previous year end or purchase value during the year.

Investment income earned through the syndicates and ceded to the company through the reinsurance agreements with Beazley Underwriting Limited is reflected as part of either the premium or claim under the relevant reinsurance contract(s) (depending on whether each individual contract is profit making or loss making at a given point in time). In this regard, investment income in the profit or loss account of the company represents investment income earned directly by the company and includes no share of syndicate investment income.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The best evidence of fair value of a derivative at initial recognition is the transaction price. Derivative assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the parties intend to settle on a net basis, or realise the assets and settle the liability simultaneously.

Borrowings

Borrowings are initially recorded at fair value less transaction costs incurred. Subsequently, borrowings are stated at amortised cost and interest is recognised in the profit or loss account over the period of the borrowings using the effective interest method.

(d) Cash and cash equivalents

This consists of cash at bank and in hand and deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition.

(e) Other payables

Other payables are stated at amortised cost.

(f) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Current tax is provided on the company's taxable profits at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised on the balance sheet to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(g) Foreign currency translation

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit or loss account. For the purpose of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

1 Principal accounting policies *continued*

(g) Foreign currency translation *continued*

The results and financial position of foreign operations that have a functional currency different from the company's presentational currency are translated into the presentational currency as follows:

- assets and liabilities are translated at the closing rate ruling at the balance sheet date:
- income and expenses for each profit or loss account are translated at average exchange rates for the reporting period where this is determined to be a reasonable approximation of the actual transaction rates; and
- all resulting exchange differences are recognised as a separate component of equity.

(h) Going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the board has reviewed the company's current and forecast solvency and liquidity positions for the next 12 months from the date that the financial statements are authorised for issue. The company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the directors' report contained in the financial statements. In addition, the Risk review section of the financial statements includes the company's risk management objectives and the company's objectives, policies and processes for managing its capital.

In assessing the company's going concern position as at 31 December 2021, the directors have considered a number of factors, including the current statement of financial position, the company's strategic and financial plan, taking account of possible changes in trading performance and funding retention, and stress testing and scenario analysis. This included, among other analysis, stress testing the company's capital and liquidity positions, a review of the company's reinsurance strategy, a review of the operational scalability of the company's growth projections, and a review of the underlying syndicate reserve risk including the key uncertainties relating to the COVID-19 pandemic. The impact of potential management actions to reduce the company's exposure to climate change related risks, was also assessed. The assessment concluded that, for the foreseeable future, the company has sufficient capital and liquidity for the 12 months to 31 March 2023.

As at its most recent regulatory submission, the company's capital ratios and its total capital resources are comfortably in excess of regulatory solvency requirements and internal stress testing indicates the company can withstand severe economic and competitive stresses.

As a result of the assessment, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and therefore believe that the company is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

2 Risk review

The company has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The company categorises its risks into eight areas: insurance, strategic, market, operational, credit, regulatory and legal, liquidity and group risk. The sections below outline the company's risk appetite and explain how it defines and manages each category of risk.

Risk management framework

Corporate governance

The board gives high priority to risk management and risk control. Procedures are in place within the company to ensure that risks are being measured, monitored and reported adequately and effectively to the risk and compliance committee. The company is subject to regular internal audit review which is carried out by the group internal audit function.

Capital management

The company is required to maintain minimum capital requirements as set out in the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485/2015). Regulations stipulate that the company should maintain capital, allowable for solvency purposes, of at least the calculated threshold amount. At no time during the year has the company failed to meet this requirement. The current SCR has been established using the Beazley plc Solvency II internal model as approved by the Central Bank of Ireland.

The internal model is used by management to aid decision making, in particular in terms of business planning, reinsurance purchasing, setting risk appetites, long term planning, exposure management and reserving.

The company also monitors capital against a Strategic Solvency Target (SST) which has been set at the capital required to meet a 1 in 500 adverse loss over a one-year time horizon. At no time during the year has the company failed to meet this target capital level.

2 Risk review *continued*

Risk management framework *continued*

The company's capital strategy is to:

- invest its capital to generate an appropriate level of return;
- maintain sufficient solvency cover;
- support other Beazley group businesses;
- adhere to local branch capital requirements and
- pay dividends to its shareholders.

The company holds a significant amount of the group's capital. Since inception the company has always been well capitalised and the capital base has grown with earnings from the reinsurance contracts with Beazley Underwriting Limited. The capital structure of the company consists of subordinated loans and shareholder funds attributable to equity interests, comprising capital contributions and retained earnings as disclosed in note 18, the statement of changes in equity and note 12, respectively.

In 2016, the company issued $250m of subordinated tier 2 notes due in 2026. In 2019, the company issued $300m additional subordinated tier 2 notes due in 2029. The amount of dividend paid is determined by the solvency of the company and the requirements of the group.

The company holds a level of capital over and above its regulatory requirements. The amount of surplus capital held is considered on an ongoing basis in light of the current regulatory framework, opportunities for growth and a desire to maximise returns. Available capital and capital requirements are projected as part of the company's five year business plan, which in turn is considered as part of the ORSA process.

More detailed information about the company's capital strategy, capital management and capital position can be found in the company's Solvency and Financial Condition Reports (available at **www.beazley.com**).

2.1 Insurance risk

The insurance risk exposure is documented in the business plan which is approved by the board and used to guide current activities and any future developments.

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the company:

- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

The board reviews detailed underwriting information relating to the syndicate business reinsured by the company through its excess of loss arrangements with Beazley Underwriting Limited. The below section provides an overview of the underwriting risk associated with the underlying syndicate business as well as the insurance/reinsurance business underwritten directly by the company through its European branches. This reflects how the board monitors and manages the business and the associated risks. The underlying risk profile of the company is materially consistent year on year. It is on this basis that additional information in respect of the underlying syndicate business is provided.

The company's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geography and size. The annual business plans for each underwriting team reflect the company's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the board of Beazley Furlonge Limited, for syndicate business, and by the board of Beazley Insurance dac for insurance/reinsurance business. These plans are monitored by the monthly Beazley Furlonge Limited underwriting committee and the Beazley Insurance dac insurance management committee and the quarterly Beazley Insurance dac reinsurance underwriting group.

The company's underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses. The company also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

2 Risk review *continued*

a) Underwriting risk continued

To address this, the company sets out the exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. This is monitored through regular calculation of realistic disaster scenarios (RDS). The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the company is exposed. The company uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The range of scenarios considered include natural catastrophes, cyber, marine, liability, political, terrorism and war events.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. With the increasing risk from climate change impacts and the frequency and severity of natural catastrophes, the company continues to monitor its exposure. Where possible the company measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods. The company also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events.

The company chooses to underwrite data breach insurance within the cyber and executive risk division and indirectly through the reinsurance contract with Beazley Underwriting Limited using its team of specialist underwriters, claims managers and data breach services managers. Other than for data breach, the company's preference is to exclude cyber exposure where possible.

To manage the potential exposure, the company's board has established a risk budget for the aggregation of data breach related claims which is monitored by reference to the largest of ten realistic disaster scenarios that have been developed internally. These scenarios include the failure of a data aggregator, the failure of a shared hardware or software platform and the failure of a cloud provider. Whilst it is not possible to be precise, as there is sparse data on actual aggregated events, these severe scenarios are expected to be very infrequent. The reinsurance programmes purchased by Beazley entities, whether directly by the company or indirectly by syndicates 2623 and 3623, would partially mitigate the cost of most, but not all, data breach catastrophes.

b) Claims management risk

Similar to section 2.1(a) above, the following section provides an overview of the claims management processes carried out by the company in respect of its direct insurance/reinsurance business, as well as the processes carried out at a syndicate level in respect of the business covered by the company's reinsurance contract with Beazley Underwriting Limited.

Claims management risk may arise within the company in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Beazley brand and undermine its ability to win and retain business or incur punitive damages. These risks can occur at any stage of the claims life-cycle.

Beazley's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

c) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs where established insurance liabilities are insufficient through inaccurate forecasting, or where there is adequate allowance for expenses and reinsurance bad debts in provisions.

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress test ultimate insurance liability balances. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for the syndicates (a significant element of this business being ultimately reinsured to Beazley Insurance dac).

The objective of the company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently test the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, actuarial, claims, and finance representatives.

Notes to the financial statements *continued*

for the year ended 31 December 2021

2 Risk review *continued*

c) Reserving and ultimate reserves risk continued

In accordance with the terms of the reinsurance contracts, the company records an outstanding claim reserve in respect of any open year reinsurance contract with Beazley Underwriting Limited which, at the reporting date, is in a loss making position for the company. The company receives detailed information on Beazley Underwriting Limited underwriting and claims activity. Further information in relation to the claims recorded under these contracts is provided in note 1 and note 13 to the financial statements.

A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

	5% increase in claims reserves		5% decrease in claims reserves	
Sensitivity to insurance risk (claims reserves)	2021 $m	2020 $m	2021 $m	2020 $m
Impact on profit after tax	**(9.8)**	(9.6)	**9.8**	9.6

We note that within the reinsurance contracts with Beazley Underwriting Limited, indirect reserve risk exists for the company. As at 31 December 2021, the level of net outstanding and incurred but not yet reported claims within the reinsured syndicates totalled $3,860m (2020: $3,602m). The company also monitors its exposure to insurance risk by location. All risks underwritten by the company are located in Europe.

2.2 Strategic risk

This is the risk that the company's strategy is inappropriate or that the company is unable to implement its strategy. Where events supersede the company's strategic plan this is escalated at the earliest opportunity through the company's monitoring tools and governance structure.

2.3 Market risk

Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates, interest rates and market prices.

Foreign exchange risk

The functional and reporting currency of the company is US dollar. Therefore, the foreign exchange risk is that the company is exposed to fluctuations in exchange rates for any non-dollar denominated transactions and net assets. However foreign exchange risk is actively managed as described below. The company is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The company deals in five main currencies, US dollars, UK sterling, Canadian dollars, Swiss francs and Euro. Transactions in all non-dollar currencies are converted to US dollars on initial recognition and revalued at the reporting date. The company holds the majority of its net assets in US dollars, which is also the company's functional currency. The following table summarises the carrying value of net assets categorised by currency:

Net assets by currency	UK £ $m	CAD $ $m	EUR € $m	CHF $m	Subtotal $m	US $ $m	Total $m
31 December 2021	195.8	(14.0)	2.9	4.7	**189.4**	1,100.6	**1,290.0**
31 December 2020	153.2	(18.1)	8.7	4.6	**148.4**	988.3	**1,136.7**

The company's assets are predominantly matched by currency to the principal underlying currencies of its insurance liabilities. This helps mitigate the risk that the company's assets required to cover its insurance liabilities are not materially affected by any future movements in exchange rates. Fluctuations in the company's trading currencies against the US dollar would result in a change to net asset value.

The table below gives an indication of the impact on net assets of a % change in relative strength of US dollar against the value of sterling, Canadian dollar, euro, and Swiss franc simultaneously. The analysis is based on the current information available and is presented net of the impact of the exchange rate derivatives referenced above.

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of UK Sterling, Canadian dollar, Swiss francs and Euro relative to US dollar	2021 $m	2020 $m	2021 $m	2020 $m
Dollar weakens 30% against other currencies	49.7	39.0	41.2	39.0
Dollar weakens 20% against other currencies	33.2	26.0	27.5	26.0
Dollar weakens 10% against other currencies	16.6	13.0	13.7	13.0
Dollar strengthens 10% against other currencies	(16.6)	(13.0)	(13.7)	(13.0)
Dollar strengthens 20% against other currencies	(33.2)	(26.0)	(27.5)	(26.0)
Dollar strengthens 30% against other currencies	(49.7)	(39.0)	(41.2)	(39.0)

2 Risk review *continued*

Interest rate risk

Some of the company's financial instruments, including financial investments, are exposed to movements in market interest rates. The company manages interest rate risk by primarily investing in short duration financial investments. The board of Beazley Insurance dac monitors the duration of these assets on a regular basis.

The following table shows the average duration at the reporting date of the financial instruments. Duration is a commonly used measure of volatility and we believe gives a better indication than maturity of the likely sensitivity of our portfolio to changes in interest rates.

Duration 31 December 2021	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate securities	347.3	712.3	198.8	115.9	94.2	37.2	–	1,505.7
Cash and cash equivalents	80.7	–	–	–	–	–	–	80.7
Derivative financial instruments	1.3	–	–	–	–	–	–	1.3
Borrowings	–	–	–	–	(249.2)	(298.4)	–	(547.6)
Total	**429.3**	**712.3**	**198.8**	**115.9**	**(155.0)**	**(261.2)**	**–**	**1,040.1**

Duration 31 December 2020	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate securities	388.3	507.8	209.3	147.5	152.1	102.5	–	1,507.5
Cash and cash equivalents	9.0	–	–	–	–	–	–	9.0
Derivative financial instruments	7.1	–	–	–	–	–	–	7.1
Borrowings	–	–	–	–	–	(547.2)	–	(547.2)
Total	**404.4**	**507.8**	**209.3**	**147.5**	**152.1**	**(444.7)**	**–**	**976.4**

In November 2016, the company issued $250m of subordinated tier 2 notes due in 2026. Annual interest, at a fixed rate of 5.875%, is payable on this debt. In September 2019, the company issued $300m of additional subordinated tier 2 notes due in 2029. Annual interest, at a fixed rate of 5.5%, is payable each year on this debt.

Sensitivity analysis

The company holds financial assets and liabilities that are exposed to interest rate risk. Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt securities and a change in value of borrowings and derivative financial instruments. This will affect reported profits and net assets as indicated in the below table:

	Impact on profit after tax for the year ended		Impact on net assets	
Shift in yield (basis points)	2021 $m	2020 $m	2021 $m	2020 $m
150 basis point increase	(31.0)	(37.8)	(31.0)	(37.8)
100 basis point increase	(20.7)	(25.2)	(20.7)	(25.2)
50 basis point increase	(10.3)	(12.6)	(10.3)	(12.6)
50 basis point decrease	10.3	12.6	10.3	12.6
100 basis point decrease	20.7	25.2	20.7	25.2

Notes to the financial statements *continued*

for the year ended 31 December 2021

2 Risk review *continued*

Price risk

Debt securities and equities that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk. Investments are made in debt securities and equities depending on the company's appetite for risk. These investments are well diversified with high quality, liquid securities. The board has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company. Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the company establishes fair value using valuation techniques. This includes using recent arm's length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

	Impact on profit after tax for the year ended		Impact on net assets	
Change in fair value of capital growth portfolio	2021 $m	2020 $m	2021 $m	2020 $m
30% increase in fair value	49.1	54.6	49.1	54.6
20% increase in fair value	32.7	36.4	32.7	36.4
10% increase in fair value	16.4	18.2	16.4	18.2
10% decrease in fair value	(16.4)	(18.2)	(16.4)	(18.2)
20% decrease in fair value	(32.7)	(36.4)	(32.7)	(36.4)
30% decrease in fair value	(49.1)	(54.6)	(49.1)	(54.6)

2.4 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events. The company actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The company also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of the company's operational control environment include:

- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

COVID-19 has caused a shift in the operational strategy of the company and the group from an office based environment to a hybrid working environment. The company has adapted to the changes in the operational environment and business processes have continued to be carried out. The company and the group continue to actively manage the operational risks, while engaging in open communication with staff. We continue to monitor the performance of controls through our risk management reporting processes.

2.5 Regulatory and legal risk

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of the company are subject to legal and regulatory requirements within the jurisdictions in which it operates and the company's compliance function is responsible for ensuring that these requirements are adhered to.

2 Risk review *continued*

2.6 Group risk

Group risk occurs where business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from these activities. The two main components of group risk are contagion and reputation.

Contagion risk is the risk arising from actions of one part of the group which could adversely affect any other part of the group. The company has limited appetite for contagion risk and minimises the impact of this occurring by operating with clear lines of communication across the group to ensure all group entities are well informed and working to common goals.

Reputation risk is the risk of negative publicity as a result of the group's contractual arrangements, customers, products, services and other activities. The group's preference is to minimise reputation risks but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

2.7 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The company's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event. This means that the company maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return.

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December 2021 and 31 December 2020:

31 December 2021	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Specialty lines	12.5	24.0	16.0	20.8	73.3	4.0
Cyber & executive risk	10.4	16.9	7.1	2.7	37.1	2.2
Reinsurance	8.8	7.5	2.2	1.8	20.3	2.0
Marine	0.4	0.4	0.1	0.1	1.0	1.8
Property	–	–	0.1	–	0.1	1.6
PAC	0.7	0.5	0.1	0.1	1.4	1.9
Intra-group Reinsurance	–	35.8	–	–	35.8	1.5
Net insurance claims	**32.8**	**85.1**	**25.6**	**25.5**	**169.0**	

31 December 2020	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Specialty lines	5.8	10.4	6.9	9.1	32.2	4.0
Cyber & executive risk	4.4	7.3	3.1	1.2	16.0	2.2
Reinsurance	1.8	1.6	0.5	0.4	4.3	2.0
Marine	0.1	–	–	–	0.1	1.8
Property	–	–	–	–	–	1.9
PAC	0.2	0.1	–	–	0.3	1.9
Intra-group Reinsurance	–	152.6	–	–	152.6	1.5
Net insurance claims	**12.3**	**172.0**	**10.5**	**10.7**	**205.5**	

2 Risk review *continued*

Maturity

The next two tables summarise the carrying amount at reporting date of financial instruments analysed by maturity date.

31 December 2021	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate securities	337.2	578.0	197.4	185.5	85.0	122.6	-	1,505.7
Cash and cash equivalents	80.7	-	-	-	-	-	-	80.7
Derivative financial instruments	1.3	-	-	-	-	-	-	1.3
Borrowings	-	-	-	-	(249.2)	(298.4)	-	(547.6)
Total	**419.2**	**578.0**	**197.4**	**185.5**	**(164.2)**	**(175.8)**	**-**	**1,040.1**

31 December 2020	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate securities	340.2	535.5	194.2	132.1	132.6	172.9	-	1,507.5
Cash and cash equivalents	9.0	-	-	-	-	-	-	9.0
Derivative financial instruments	7.1	-	-	-	-	-	-	7.1
Borrowings	-	-	-	-	-	(547.2)	-	(547.2)
Total	**356.3**	**535.5**	**194.2**	**132.1**	**132.6**	**(374.3)**	**-**	**976.4**

2.8 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the company are:

- Investments – whereby issuer default results in the company losing all or part of the value of a financial instrument;
- Amounts receivable under reinsurance contracts – whereby counterparties fail to pass on premiums due under the reinsurance contracts. The main credit risk exposure facing the company arises by virtue of the reinsurance contract in place with its sister company, Beazley Underwriting Limited and the underlying risk facing that company.
- Brokers and insureds – counterparties fail to pass on premiums or claims collected or paid on behalf of the company.

The company has not seen an increase in defaults as a result of the COVID-19 outbreak, however we continue to monitor this closely.

The company's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the company's capital from erosion so that it can meet its insurance liabilities. To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. These ratings have been categorised below as used for Lloyd's reporting:

	A.M. Best	Moody's	S&P
Tier 1	A++ to A-	Aaa to A3	AAA to A-
Tier 2	B++ to B-	Baa1 to Ba3	BBB+ to BB-
Tier 3	C++ to C-	B1 to Caa	B+ to CCC
Tier 4	D,E,F,S	Ca to C	R,(U,S) 3

2 Risk review *continued*

2.8 Credit risk *continued*

The following tables summarise the company's concentrations of credit risk:

31 December 2021	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
- Fixed and floating rate debt securities	1,319.6	186.1	–	–	–	1,505.7
- Equity linked funds	–	–	–	–	135.6	135.6
- Hedge funds	–	–	–	–	51.3	51.3
- Derivative financial assets	–	–	–	–	1.3	1.3
Cash and cash equivalents	80.5	0.2	–	–	–	80.7
Accrued interest	5.5	–	–	–	–	5.5
Claims outstanding, reinsurer's share	–	–	–	–	54.4	54.4
Debtors arising from reinsurance operations	–	–	–	–	111.1	111.1
Debtors arising from direct insurance operations	–	–	–	–	68.6	68.6
Total	**1,405.6**	**186.3**	–	–	**422.3**	**2,014.2**

31 December 2020	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
- Fixed and floating rate debt securities	1,252.0	255.5	–	–	–	1,507.5
- Equity linked funds	–	–	–	–	160.3	160.3
- Hedge funds	–	–	–	–	47.6	47.6
- Derivative financial assets	–	–	–	–	7.1	7.1
Cash and cash equivalents	8.2	0.8	–	–	–	9.0
Accrued interest	7.2	–	–	–	–	7.2
Claims outstanding, reinsurer's share	–	–	–	–	14.9	14.9
Debtors arising from reinsurance operations	–	–	–	–	24.2	24.2
Debtors arising from direct insurance operations	–	–	–	–	42.4	42.4
Total	**1,267.4**	**256.3**	–	–	**296.5**	**1,820.2**

The carrying amount of financial assets at the reporting date represents the maximum credit exposure. At 31 December 2021, the company held no financial assets that were past due or impaired, either for the current year under review or on a cumulative basis based on all available evidence. Financial investments falling within the unrated category comprise hedge funds and equity funds for which there is no readily available market data to allow classification within the respective tiers.

2.9 Climate change risk

The changing global climate is recognised as an important emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the group's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. The company, as a core part of the group, follows the group's responsible business strategy and the company's board receives regular reporting in this area. As a specialist insurer, various classes of business we underwrite are subject to the effect climate change presents to the risk environment.

As part of the underwriting process, we work with our insureds to understand the risks facing their organisations, including applicable climate-related risks and to tailor insurance coverages to mitigate the associated financial risks.

Notes to the financial statements *continued*

for the year ended 31 December 2021

2 Risk review *continued*

2.9 Climate change risk *continued*

We acknowledge and accept that over time climate change could impact the risks facing our insureds and we aim to manage the resulting risk to the company and the group as described below:

Pricing risk: This is the risk that current pricing levels do not adequately consider the prospective impact of climate change, resulting in systemic underpricing of climate-exposed risks. The group's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We benefit from a feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk-by-risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.

Catastrophe risk: This is the risk that current models do not adequately capture the impact of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events (e.g. wildfires) that could drive higher-than-expected insured losses. The group utilises commercial catastrophe models to facilitate the estimation of aggregate exposures based on the group's underwriting portfolio. These catastrophe models are updated to reflect the latest scientific perspectives. Catastrophe models are evolving to include new or secondary perils which may be related to climate change. In addition, the group runs a series of natural catastrophe Realistic Disaster Scenarios (RDS) on a monthly basis which monitor the group's exposure to certain scenarios that could occur. These RDS include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.

Reserve risk: This is the risk that established reserves are not sufficient to reflect the ultimate impact climate change may have on paid losses. This includes unanticipated liability risk losses arising from our clients facing litigation if they are held to be responsible for contributing to climate change, or for failing to act properly to respond to the various impacts of climate change. With support from our group actuarial team, claims teams and other members of management the group establishes financial provisions for our ultimate claims liabilities. The group maintains a consistent approach to reserving to help mitigate the uncertainty within the reserves estimation process.

Asset risk: This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The group considers the impact of climate change on its asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. We subscribe to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for environmental, social and governance performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.

External event risk: This is the risk that the physical impact of climate-related events has a material impact on our own people, processes and systems, leading to increased operating costs or the inability to deliver uninterrupted client service. The group has business continuity plans in place to minimise the risk of an interrupted client service in the event of a disaster.

Commercial management risk: The group aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is limited. However, we do choose office space with climate change mitigation in mind, and engage with our employees, vendors and customers in an effort to reduce overall waste and our environmental footprint.

Credit risk: As a result of material natural catastrophe events, there is a risk that our reinsurance counterparties are unable to pay reinsurance balances due to the company or the group. If the frequency or severity of these events is increased due to climate change this could cause a corresponding increase in credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking, which considers financial strength ratings, capital metrics, performance metrics and other considerations.

Regulatory and legal risk: Regulators, investors and other stakeholders are becoming increasingly interested in companies' responses to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The company and the group regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.

2 Risk review *continued*

2.9 Climate change risk *continued*

Liquidity and capital risk: Linked to the underwriting and credit risks noted above, there is a risk that losses resulting from unprecedented natural disasters or extreme weather could erode our ability to pay claims and remain solvent. The company and the group establishes capital at a 1:200 level based on the prevailing business plan.

The group runs Realistic Disaster Scenarios (RDS), with natural catastrophe and cyber being run on a monthly basis, in order to determine the impact of different risks. This modelling process is overseen by the Exposure Management Team, who have developed a Complex and Emerging Underwriting Risks Protocol. This sets out the activity in place to review the potential/ complex/or emerging risks relating to underwriting and there are circa 60 deterministic realistic disaster scenarios (D-RDS) used to monitor the most significant. A recent focus has been on testing and stressing assumptions. Following this a series of activities has been initiated to embed good practices, ensuring that the risk landscape is frequently reviewed using claims trends, early flag, and external expert input.

These include:

- challenging and stretching of risk assumptions that are documented and articulated to the relevant oversight committee;
- regular review of all D-RDS;
- external expert intelligence and challenge;
- consideration of Reserving Peer review trend analysis and observations; and
- test potential application of different policy wordings.

These scenarios are either modelled, using data drawn from third party modelling partners, or non-modelled, where experts across the group collaborate to determine the impact. An example of our approach to non-modelled risks is our approach to wildfires, an increasing event due to the impacts of climate change. The modelling takes into account the impact of sector, geography and business segment, in order to determine the group's exposure. In turn this helps to drive decision making across the business. The group is currently enhancing the number of scenarios its runs to ensure we further understand the financial impact of climate related risk on the business.

On a bi-annual basis, the risk team reviews the group's risk assessment. These assessments are a collaborative effort with all the business functions, and are an opportunity to identify emerging risk, review existing risks, and provide appropriate mitigation measures to reduce/manage the risk. This assessment is inward looking and primarily concentrates on operational processes, whilst helping to encourage open dialogue with risk owners. This assessment is where the group's own response to climate change is noted, with the appropriate action to deliver improvements detailed.

3 Segmental analysis

a) Reporting segments

Segment information is presented in respect of reportable segments. These are based on the company's management and internal reporting structures and represent the level at which financial information is reported to the board, being the chief operating decision-maker as defined in IFRS 8.

The company's business consists of two operating divisions – direct insurance/reinsurance and intra-group reinsurance, reflecting the reporting and governance structure of the company, with the reinsurance underwriting group monitoring the performance of the intra-group reinsurance business and the insurance management committee monitoring the performance of the direct insurance/reinsurance business. Within the insurance/reinsurance division, the company has underwrote policies in the Specialty lines, Cyber & executive risk, Reinsurance, Political, accident & contingency (PAC), Property and Marine divisions and our segmental analysis is presented at this level in accordance with the segment information reported to the chief operating decision-makers.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The reporting segments do not cross-sell business to each other. Due to the accounting presentation of the reinsurance contracts with Beazley Underwriting Limited (represented below as Intra-group reinsurance), claims ratios, expense ratios and combined ratios are disclosed in respect of direct insurance business only.

Notes to the financial statements *continued*

for the year ended 31 December 2021

3 Segmental analysis *continued*

b) Segment information

31 December 2021	Specialty lines $m	Cyber & executive risk $m	Reinsurance $m	PAC $m	Property $m	Marine $m	Intra-group Reinsurance $m	Total reportable segments $m	Unallocated $m	Total $m
Segment results										
Gross premiums written	117.0	71.9	10.9	4.6	0.7	1.5	111.1	**317.7**	–	**317.7**
Net earned premiums	68.0	41.2	6.7	2.2	0.3	1.1	111.1	**230.6**	–	**230.6**
Net investment income	0.8	0.6	0.2	0.2	0.4	0.2	54.9	**57.3**	–	**57.3**
Revenue	**68.8**	**41.8**	**6.9**	**2.4**	**0.7**	**1.3**	**166.0**	**287.9**	–	**287.9**
Net insurance claims	(45.8)	(25.8)	(21.9)	(1.2)	(0.2)	(1.0)	116.9	**21.0**	–	**21.0**
Net operating expenses	(20.0)	(11.7)	(1.4)	(0.7)	(0.2)	(0.3)	(19.7)	**(54.0)**	–	**(54.0)**
Foreign exchange loss	–	–	–	–	–	–	–	–	**(4.0)**	**(4.0)**
Finance costs	–	–	–	–	–	–	–	–	**(31.6)**	**(31.6)**
Expenses	**(65.8)**	**(37.5)**	**(23.3)**	**(1.9)**	**(0.4)**	**(1.3)**	**97.2**	**(33.0)**	**(35.6)**	**(68.6)**
Profit/(loss) on ordinary activities before tax	**3.0**	**4.3**	**(16.4)**	**0.5**	**0.3**	–	**263.2**	**254.9**	**(35.6)**	**219.3**
Segment assets	192.0	121.6	37.0	8.3	0.9	2.6	1,882.3	**2,244.7**	–	**2,244.7**
Segment liabilities	(178.2)	(96.4)	(37.0)	(5.3)	(0.5)	(1.3)	(636.0)	**(954.7)**	–	**(954.7)**
Net assets[1]	**13.8**	**25.2**	–	**3.0**	**0.4**	**1.3**	**1,246.3**	**1,290.0**	–	**1,290.0**

	Specialty lines %	Cyber & executive risk %	Reinsurance %	PAC %	Property %	Marine %
Claims ratio	67	63	327	55	67	91
Expense ratio	29	28	21	32	67	27
Combined ratio	96	91	348	87	134	118

1 Net assets by segment within our direct insurance business have increased significantly during the year due to an increased allocation of assets to our UK branch following authorisation by the PRA as a third country branch.

3 Segmental analysis *continued*

b) Segment information *continued*

31 December 2020	Specialty lines $m	Cyber & executive risk $m	Reinsurance $m	Marine $m	PAC $m	Intra-group Reinsurance $m	Total reportable segments $m	Unallocated $m	Total $m
Segment results									
Gross premiums written	53.4	28.2	7.0	0.3	2.1	24.2	**115.2**	–	**115.2**
Net earned premiums	28.0	13.8	5.6	0.2	0.5	24.2	**72.3**	–	**72.3**
Net investment income	1.4	0.8	0.2	–	–	80.6	**83.0**	–	**83.0**
Revenue	**29.4**	**14.6**	**5.8**	**0.2**	**0.5**	**104.8**	**155.3**	–	**155.3**
Net insurance claims	(18.5)	(11.6)	(3.1)	(0.1)	(0.2)	(116.1)	**(149.6)**	–	**(149.6)**
Net operating expenses	(12.5)	(5.2)	(2.0)	(0.1)	(0.4)	(6.3)	**(26.5)**	–	**(26.5)**
Foreign exchange gain	–	–	–	–	–	–	–	**4.8**	**4.8**
Finance costs	–	–	–	–	–	–	–	**(31.6)**	**(31.6)**
Expenses	**(31.0)**	**(16.8)**	**(5.1)**	**(0.2)**	**(0.6)**	**(122.4)**	**(176.1)**	**(26.8)**	**(202.9)**
Profit/(loss) on ordinary activities before tax	**(1.6)**	**(2.2)**	**0.7**	–	**(0.1)**	**(17.6)**	**(20.8)**	**(26.8)**	**(47.6)**
Segment assets	86.5	40.5	10.6	0.3	2.0	1,843.1	**1,983.0**	–	**1,983.0**
Segment liabilities	(93.0)	(49.8)	(7.9)	(0.4)	(2.7)	(692.5)	**(846.3)**	–	**(846.3)**
Net assets	**(6.5)**	**(9.3)**	**2.7**	**(0.1)**	**(0.7)**	**1,150.6**	**1,136.7**	–	**1,136.7**

	Specialty lines %	Cyber & executive risk %	Reinsurance %	Marine %	PAC %
Claims ratio	66	84	56	38	47
Expense ratio	44	38	36	78	88
Combined ratio	110	122	92	116	134

An analysis of gross premiums written by reference to the location of the risk insured by the company is provided below. In 2021, over 48% (2020: 37%) of our premium was sourced from the UK, with the remainder in continental Europe.

	2021 $m	2020 $m
Risks located in US	–	–
Risks located in Europe	317.7	115.2
Risks located in other countries	–	–
	317.7	**115.2**

4 Investment return

	2021 $m	2020 $m
Income derived from financial assets	28.8	52.2
Income from intercompany financing arrangements	30.1	32.1
Investment income	**58.9**	**84.3**
Investment expenses and charges	(1.6)	(1.3)
	57.3	**83.0**

Investment income derived from financial assets and income from intercompany financing arrangements are trading income and are included in the company's technical account as the assets are held to support the company's reinsurance and insurance activities.

Notes to the financial statements *continued*

for the year ended 31 December 2021

5 Net operating expenses

	2021 $m	2020 $m
Administration costs including commissions payable to Beazley Underwriting Limited	54.0	26.5
	54.0	**26.5**

Administrative expenses include:

Auditor's remuneration:	2021 $	2020 $
Fees payable for the audit of these annual accounts	134,427	117,147
Fees payable in respect of other services pursuant to legislation	69,677	66,951
Fees payable in respect of tax advisory services	–	–
Fees payable in respect of other non-audit services	2,000	2,000
	206,104	**186,098**

The average number of persons employed by the company (including executive directors) during the year, analysed by category, was as follows:

Number of employees	2021	2020
Management	1	1
Compliance	1	1
Actuarial	1	1
Risk	1	1
Finance	1.5	–
Administration	0.5	0.5
	6.0	**4.5**

At year end, total permanent headcount has increased to 8.5, with finance now having 4 permanent team members.

6 Staff numbers and costs

The aggregate payroll costs of these persons were as follows:

	2021 $m	2020 $m
Wages and salaries	1.2	0.9
Social security costs	–	–
Charged to profit or loss account	**1.2**	**0.9**

Executive director, S M Lake and group non-executive director, A P Cox, are both executive directors of the company's parent company, Beazley plc. During 2021, P O Desaulle also joined the board of Beazley PLC. Effective 30 September 2021, P O Desaulle became chairperson of the board. In addition, effective 6 September 2021, M Moore joined the board. Details of all director's remuneration is included in the table below. Of the amount disclosed in the table below, $0.4m (2020: $0.5m) was borne by the company. The remaining amount represents an estimated allocation of the emoluments paid or payable by Beazley plc to certain directors as part of their group wide executive management role. The estimated allocation is based on an estimate of the qualifying services, including management of the affairs of the company, they provided to the company during the year.

	2021 $m	2020 $m
Directors' emoluments	0.6	0.6
Pension contributions	–	–
	0.6	**0.6**

7 Taxation

	2021 $m	2020 $m
Current tax:		
Irish corporation tax charge/(credit)	27.7	(5.9)
Adjustment in respect of prior year	(0.2)	0.3
Deferred tax:		
Origination and reversal of timing differences	(3.2)	(0.4)
Adjustment in respect of prior year	-	(0.7)
Tax on profit/(loss) on ordinary activities	**24.3**	**(6.7)**

Factors affecting the tax charge for the current period
The tax charge (2020: tax credit) for the year is lower (2020: lower) than the standard rate of corporation tax in Ireland, 12.5% due to the differences explained below.

	2021 $m	2020 $m
Profit/(loss) on ordinary activities before tax	219.3	(47.6)
Corporation tax at 12.5%	27.4	(6.0)
Effect of:		
Tax rates in foreign jurisdictions	(2.9)	0.1
Permanent differences	-	(0.4)
Prior year over provision	(0.2)	(0.4)
Tax on profit/(loss) on ordinary activities	**24.3**	**(6.7)**

Deferred tax assets of $4.1m (2020: $1.2m), relating to tax losses, which depend on the availability of future taxable profits, have been recognised. The company has concluded that it is probable that the deferred tax assets will be recovered using the estimated future taxable profits based on the approved business plans.

8 Financial instruments

Fair value measurement

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of government and government agencies which are measured based on quoted prices in active markets.

Level 2 - Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills which are not actively traded, corporate bonds, asset backed securities and mortgage-backed securities.

Level 3 - Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. Where relevant, the company uses prices and inputs that are current as of the measurement date for valuation of these instruments.

Notes to the financial statements *continued*

for the year ended 31 December 2021

8 Financial instruments *continued*

Fair value measurement *continued*

The table below analyses financial instruments measured at fair value at the 31 December 2021, by the level in the fair value hierarchy into which the fair value measurements is categorised:

31 December 2021 Financial assets at fair value:	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Fixed and floating rate debt securities				
1) Government issued	986.1	–	–	986.1
2) Corporate bonds – Investment grade	202.9	296.7	–	499.6
3) Corporate bonds – High yield	20.0	–	–	20.0
Equity linked funds	135.6	–	–	135.6
Hedge funds	–	51.3	–	51.3
Derivative financial assets	1.3	–	–	1.3
Total financial assets at fair value	**1,345.9**	**348.0**	–	**1,693.9**
Financial liabilities measured at fair value				
Derivative financial liabilities	5.4	–	–	5.4
Total financial liabilities measured at fair value	**5.4**	–	–	**5.4**
Financial liabilities not measured at fair value				
Tier 2 subordinated debt (2026) – issued in 2016	–	249.2	–	249.2
Tier 2 subordinated debt (2029) – issued in 2019	–	298.4	–	298.4
Total financial liabilities not measured at fair value	–	**547.6**	–	**547.6**

The table below analyses financial instruments measured at fair value at the 31 December 2020, by the level in the fair value hierarchy into which the fair value measurements is categorised:

31 December 2020 Financial assets at fair value through:	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Fixed and floating rate debt securities				
1) Government issued	681.3	–	–	681.3
2) Supernational	385.5	393.4	–	778.9
3) Corporate bonds – Investment grade	47.3	–	–	47.3
Equity linked funds	160.3	–	–	160.3
Hedge funds	–	47.6	–	47.6
Derivative financial assets	7.1	–	–	7.1
Total financial assets at fair value	**1,281.5**	**441.0**	–	**1,722.5**
Financial liabilities measured at fair value				
Derivative financial liabilities	2.9	–	–	2.9
Total financial liabilities measured at fair value	**2.9**	–	–	**2.9**
Financial liabilities not measured at fair value				
Tier 2 subordinated debt (2026) – issued in 2016	–	249.0	–	249.0
Tier 2 subordinated debt (2029) – issued in 2019	–	298.2	–	298.2
Total financial liabilities not measured at fair value	–	**547.2**	–	**547.2**

9 Current tax receivable/(payable)

	2021 $m	2020 $m
Current tax receivable/(payable)	(14.1)	11.8
	(14.1)	**11.8**

10 Cash and cash equivalents

	2021 $m	2020 $m
Cash at bank and in hand	80.7	9.0
Short term deposits	–	–
	80.7	**9.0**

11 Deferred acquisition cost

	2021 $m	2020 $m
Balance at 1 January	14.0	6.4
Additions	6.0	7.6
Balance at 31 December	**20.0**	**14.0**

12 Share capital and other reserves

	2021 $m	2020 $m
Authorised: 100,000,000 ordinary shares of (€1) each	128.4	128.4
Allotted, issued and fully paid	–	–

There is one share with a nominal value of €1 in issue. A capital contribution of $536.3m was received from Beazley plc on 29 June 2009. The company also holds a foreign exchange translation reserve of ($42.9m) which arose on the change in functional currency to USD in 2010. The exchange differences from translating foreign operations are also included as a separate component of equity ($1.9m). There was an interim dividend of $40.0m paid in August 2021 (2020: $nil).

The profit or loss account was comprised of profits carried forward from previous years of $643.5m and a profit for the financial year of $195.0m.

Notes to the financial statements *continued*

for the year ended 31 December 2021

13 Technical provisions

13.1 Technical provisions reconciliation

	Provision for unearned *premium* $m	Claims *outstanding* $m
Gross technical provisions		
At 1 January 2021	51.3	220.4
Exchange adjustments	(5.3)	(10.7)
Movement in provision	47.0	13.7
At 31 December 2021	**93.0**	**223.4**

	Provision for unearned premium $m	Claims outstanding $m
Reinsurer's share of technical provisions		
At 1 January 2021	(10.8)	(14.9)
Exchange adjustments	1.1	2.3
Movement in provision	(16.3)	(41.8)
At 31 December 2021	**(26.0)**	**(54.4)**
Net technical provisions		
At 31 December 2021	**67.0**	**169.0**
At 1 January 2021	**40.5**	**205.5**

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
At 1 January 2020	18.0	57.4
Exchange adjustments	3.5	4.8
Movement in provision	29.8	158.2
At 31 December 2020	**51.3**	**220.4**

	Provision for unearned premium $m	Claims outstanding $m
Reinsurer's share of technical provisions		
At 1 January 2020	(4.2)	(3.4)
Exchange adjustments	(0.4)	(0.6)
Movement in provision	(6.2)	(10.9)
At 31 December 2020	**(10.8)**	**(14.9)**
Net technical provisions		
At 31 December 2020	**40.5**	**205.5**
At 1 January 2020	**13.8**	**54.0**

13 Technical provisions *continued*

13.2 Technical provisions breakdown

As noted in note 1 above, outstanding claims include claims reserves in respect of the company's insurance activities, as well as claims reserves held in respect of the company's reinsurance contracts with Beazley Underwriting Limited. The current year gross claims reserves are split as follows:

	Gross $m	Net $m
2021 underwriting year reinsurance contract	5.8	5.8
2020 underwriting year reinsurance contract	29.9	29.9
2019 underwriting year reinsurance contract	–	–
Direct insurance	280.7	200.3
At 31 December 2021	**316.4**	**236.0**

	Gross $m	Net $m
2020 underwriting year reinsurance contract	130.2	130.2
2019 underwriting year reinsurance contract	22.5	22.5
2018 underwriting year reinsurance contract	–	–
Direct insurance	119.0	93.3
At 31 December 2020	**271.7**	**246.0**

13.3 Loss development tables

The tables presented reflect the gross and net claims development of direct insurance/reinsurance business written through the company's European branch network (on a percentage of gross premium basis) and the absolute claims development of open year Intra-group reinsurance contracts in place with Beazley Underwriting Limited. The final table reconciles the claims development of all insurance and reinsurance activities to the balance sheet of the company. Each table is split by underwriting year.

Gross claims development direct insurance/reinsurance	2017 %	2018 %	2019 %	2020 %	2021 %
12 months	59.9%	72.1%	64.8%	71.3%	81.4%
24 months	59.9%	72.2%	62.9%	80.3%	
36 months	59.9%	74.5%	61.1%		
48 months	58.7%	72.1%			
60 months	58.9%				

	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	Total $m
Gross claims liabilities, Direct insurance/ reinsurance	0.4	3.1	19.7	66.6	97.9	**187.7**

Net claims development direct insurance/reinsurance	2017 %	2018 %	2019 %	2020 %	2021 %
12 months	55.8%	69.7%	62.2%	67.2%	75.7%
24 months	55.8%	70.0%	57.2%	73.5%	
36 months	69.7%	77.0%	57.2%		
48 months	54.8%	99.8%			
60 months	67.9%				

	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	Total $m
Net claims liabilities, Direct insurance/ reinsurance	0.3	3.9	13.4	49.0	66.7	**133.3**

13 Technical provisions *continued*

13.3 Loss development tables *continued*

Gross/Net claims development Intra-group reinsurance	2019 $m	2020 $m	2021 $m
12 months	20.9	130.2	5.8
24 months	22.5	29.9	–
36 months	–	–	–

	2019 $m	2020 $m	2021 $m	Total $m
Gross and net claims liabilities, Intra-group reinsurance	–	29.9	5.8	**35.7**

	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	Total $m
Gross claims liabilities, Total	0.4	3.1	19.7	96.5	103.7	**223.4**

	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	Total $m
Net claims liabilities, Total	0.3	3.9	13.4	78.9	72.5	**169.0**

14 Debtors arising from reinsurance activities

The following table displays the amounts due from Beazley Underwriting Limited under the excess of loss reinsurance agreements. Debtors arising from reinsurance activities are recognised when a reinsurance contract is in a profitable position at the reporting date.

	2021 $m	2020 $m
Balance at 1 January	24.2	–
Additions/(distributions)	86.9	24.2
Balance at 31 December	**111.1**	**24.2**

The following table provides an additional split of reinsurance debtors, into each open year of account contract in place at the reporting date:

	2019 $m	2020 $m	2021 $m
Balance at 1 January	–	–	–
Additions	111.1	–	–
Balance at 31 December	**111.1**	–	–

15 Funds at Lloyd's

The Funds at Lloyd's to support the underwriting of Beazley Underwriting Limited on syndicates 2623 and 3623 have been provided by the company by way of deposits of $1,348.9m (2020: $1,303.1m). The Funds at Lloyd's, included in financial assets on the company's balance sheet, may consist of certain approved assets only and are subject to a deed of charge in favour of Lloyd's. In return for providing the Funds at Lloyd's, Beazley Underwriting Limited pays the company an annual fee.

In addition, the company acts as a guarantor in respect of the group's banking facility of $450m (2020: $450m). As at 31 December 2021, $225m (2020: $225m) of the facility has been drawn down by the group and placed as a letter of credit at Lloyd's to support the FAL of Beazley Underwriting Limited.

16 Related parties

The direct owner of the company's share capital is Beazley Ireland Holdings plc and ultimate controlling party is Beazley plc. The company has an amount due from group undertakings (mainly Beazley Underwriting Limited) of $180.4m at the reporting date (2020: $125.0m).

The following table displays compensation paid to key management during the year. Key management compensation includes amounts paid by the company to executive and non-executive directors and other senior management.

	2021 $m	2020 $m
Salaries and other short term benefits	1.2	0.9
Pension contributions	0.1	0.1
	1.3	**1.0**

17 Ultimate parent undertaking

The ultimate parent undertaking is Beazley plc, incorporated and resident in the United Kingdom. The largest and the smallest group in which the results of the company are consolidated is that headed by Beazley plc. The accounts of Beazley plc are available to the public at **www.beazley.com** and at 22 Bishopsgate, London EC2N 4BQ, United Kingdom.

18 Financial liabilities

	2021 $m	2020 $m
Carrying value		
Tier 2 subordinated debt - issued in 2016	249.2	249.0
Tier 2 subordinated debt - issued in 2019	298.4	298.2
Derivative financial instruments	5.4	2.9
Total financial liabilities	**553.0**	**550.1**
Fair value		
Tier 2 subordinated debt issued in 2016	334.6	271.0
Tier 2 subordinated debt - issued in 2019	279.0	320.5
Derivative financial instruments	5.4	2.9
Total financial liabilities	**619.0**	**594.4**

The fair value of the tier 2 subordinated debt is based on quoted market price.

In November 2016, the company issued $250m of subordinated tier 2 notes due in 2026. Annual interest, at a fixed rate of 5.875% is payable each year. In September 2019, the company issued $300m additional subordinated tier 2 notes due in 2029. Annual interest, at a fixed rate of 5.5% is payable each year. All subordinated debt is listed on the London Stock Exchange. Interest paid on this debt during 2021 was $31.6m (2020: $31.6m).

19 Post balance sheet events

On 3 March 2022, the board approved a dividend of $105m payable to it's sole shareholder, Beazley Ireland Holdings plc. As a non-adjusting post balance sheet event, this dividend has not been reflected in the company's financial statements for the year ended 31 December 2021. Also, effective 1 February 2022, J Dunne was appointed to the board as an executive director. As of 1 February 2022, S M Lake has moved from the role of executive director to the role of group non-executive director.

The company and the group continue to closely monitor the potential impact of the ongoing conflict in Ukraine, both from an investment asset and a claims liability perspective.

20 Approval of financial statements

The board of directors approved these financial statements on 31 March 2022.

Directors and advisors

Directors
A P Cox (British) (appointed 26 May 2021)
D A Horton (British) (resigned 31 March 2021)
E J McGivney
J Dunne (appointed 1 February 2022)
S M Lake (British)
P O Desaulle (French) (appointed chairperson 30 September 2021)
C M Woods (resigned 30 September 2021)
I C Stuart (resigned 5 February 2021)
K Murphy
M Moore (appointed 6 September 2021)
P Ruane

Secretary
R Yeoman

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Registered number
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Auditor
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Harcourt Centre
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Banker
Bank of Ireland

2 College Green
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Solicitors
William Fry

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