Financial review
Group performance

> "It is pleasing to see the growth of prior years materialising in a strong underwriting and investment performance in 2023"

Sally Lake
Group Finance Director
Executive Sponsor of the Women in Finance Charter

Beazley delivered a profit before tax in 2023 of $1,254.4m (2022: $584.0m), an excellent result consisting of a combined ratio of 71% (2022: 79%) and investment return of 4.9% (2022: (2.1)%).

Result
Profit before tax in 2023 was $1,254.4m (2022: $584.0m). This was achieved through a substantial insurance service result of $1,251.0m (2022: $822.9m) driven by a combined ratio of 71% (2022: 79%). This was complemented by an investment result of $480.2m (2022: ($179.7m)) which represents an investment return of 4.9% (2022: (2.1%)).

Premiums
Insurance written premiums increased by 7% in 2023 to $5,601.4m (2022: $5,246.3m). Rates on renewal business on average increased by 4% across the portfolio (2022: increased by 14%). Strong growth was seen in our Property Risks division, where we have taken advantage of the improving underwriting conditions, with growth of 64%.

Our net insurance written premiums increased by 24% in 2023 to $4,696.2m (2022: $3,772.4m). The higher growth in net premium compared to gross is primarily due to two reasons: Firstly, the change in relationship with syndicate 5623 for our Portfolio Underwriting business. In 2022 this was underwritten by the Group and reinsured out to syndicate 5623, however, from 2023, syndicate 5623 directly underwrote this business as a standalone entity. Secondly, we have actively purchased less proportional reinsurance within our Cyber Risks and Specialty Risks divisions, further increasing our net insurance written premiums.

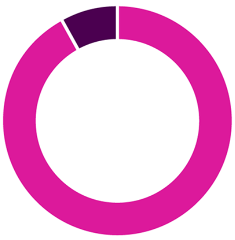
Financial review
Group performance continued

Statement of profit or loss

	2023 $m	2022[1] $m
Insurance service result	1,251.0	822.9
Net investment income/(loss)	480.2	(179.7)
Net insurance finance (expense)/income	(153.4)	183.0
Net insurance and financial result	**1,577.8**	**826.2**
Other income	78.5	32.1
Operating expenses	(365.8)	(217.6)
Foreign exchange gains/(losses)	4.5	(17.3)
Finance costs	(40.6)	(39.4)
Profit before tax	**1,254.4**	**584.0**
Income tax expense	(227.6)	(100.7)
Profit after tax	**1,026.8**	**483.3**
Claims ratio	39 %	47 %
Expense ratio	32 %	32 %
Combined ratio	71 %	79 %
Rate increase	4 %	14 %
Investment return	4.9 %	(2.1)%

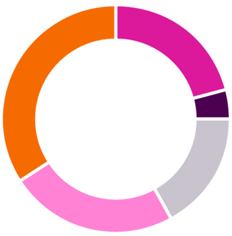
1 The Group has restated its summary statement of profit or loss for the year ended 31 December 2022 following the adoption of IFRS 17.

Insurance type



Insurance	92%
Reinsurance	8%

Premiums by division [1]



Cyber Risks	21%
Digital Risks	4%
MAP Risks	17%
Property Risks	24%
Specialty Risks	34%

1 Based on insurance written premiums

Premium written by claim settlement term

Short tail	55%
Long tail	45%

Geographical distribution of premiums [2]

Europe	16%
Worldwide	22%
USA	62%

2 The graph shows the location in which the insured resides

Insurance service result

The Group saw strong growth in the insurance service result of 52% leading to a total of $1,251.0m (2022: $822.9m). Insurance revenue of $5,442.4m (2022: $4,848.4m), a 12% increase, reflected the growth of the business during 2023. Insurance service expense reduced year on year by $421.4m. 2023 was a benign year for insured catastrophes and this led to an improved claims experience for the Group in 2023 leading to a claims ratio of 39% (2022: 47%). Directly attributable expenses increased by 12% in line with the growth of the business.

The allocation of reinsurance premium increased to $1,127.3m (2022: $965.4m) while amounts recoverable from reinsurers for incurred claims decreased to $528.5m (2022: $953.9m). As prior year gross claims estimates have decreased, a reduction in the amounts recoverable from reinsurers and a benign year for catastrophes has led to lower recoveries than the prior year. Reinsurers share of directly attributable expenses has increased to $3.6m (2022: $1.7m).

Combined ratio

The combined ratio of an insurance company is a measure of its performance from transacting (re)insurance contracts. Under IFRS 17 this represents the ratio of its insurance service expense less directly attributable expenses and amounts recoverable from reinsurers for incurred claims, to the total insurance revenue less allocation of reinsurance premium. This is all on a discounted basis and excludes operating expenses which are non-directly attributable and excluded from the insurance service result.

A combined ratio under 100% indicates a profit on the insurance service result. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio improved in 2023 to 71% (2022: 79%) primarily driven by a much improved claims experience. For further information please see the APMs section on pages 253-255.

Other income

Other income grew by 145% to $78.5m (2022: $32.1m), reflecting increases in profit commissions and general commissions received from syndicate 623 compared to the prior year.

Reserve confidence level

Beazley has a consistent reserving philosophy, with initial reserves being set to include a risk adjustment that may be released over time as and when any uncertainty reduces.

With the move to IFRS 17 from IFRS 4, we took the opportunity to revisit our reserving strategy. Under IFRS 17, we have moved to a preferred confidence level range of between the 80th and 90th percentile. This percentile indicates the strength of reserves held across the best estimate and risk adjustment for non-financial risk. IFRS 17 outlines the key principles in order to calculate the risk adjustment for non-financial risk. There are two principles that are particularly important, and thus worth highlighting. First, the level needs to be consistent with how risk is managed, contracts are priced and the portfolios are managed. The second principle states that the risk adjustment level should make the firm neutral to running off the obligations or selling them.

At the end of 2023, our confidence level was at the 85th percentile (2022: 85th percentile).

Past service development

Net past service development saw a net release of $109.8m in 2023 (2022: net strengthening of $54.9m) which represented (2.5)% (2022: 1.4%) of insurance revenue less allocation of reinsurance premiums. Property shows the largest release of $78.0m (2022: $22.4m) due to favourable attritional claims experience on the older underwriting years, improvement in past catastrophe estimates along with the expiry of risk across the more recent underwriting years. The $28.0m (2022: $4.5m) release on Digital is driven by a reduction in estimates on specific losses, favourable attritional claims experience on the cyber business, along with expiry of risk. Cyber Risks has seen a deterioration of $9.9m (2022: $0.9m) due to the adverse development arising from cyber liability claims partially offset by benign claims experience on recent underwriting years. Specialty Risks shows a release of $8.1m (2022: strengthening of $65.2m) driven by favourable claims experience on more recent underwriting years. There has been some deterioration of older underwriting years partially offsetting this experience, though this has been mitigated by the aggregate excess of loss reinsurance protection in place across both Cyber Risks and Specialty Risks. The release of $5.6m (2022: strengthening of $15.7m) on MAP Risks is driven by favourable attritional experience.

Prior year claims adjustment

Net	2023 $m	2022 $m
Cyber Risks	9.9	0.9
Digital	(28.0)	(4.5)
MAP Risks	(5.6)	15.7
Property Risks	(78.0)	(22.4)
Specialty Risks	(8.1)	65.2
Total	**(109.8)**	**54.9**
(Release)/strengthening as a percentage of insurance revenue less allocation of reinsurance premiums	(2.5)%	1.4 %

Financial review
Group performance continued

Total expenditure
The expense ratio, which under IFRS 17 includes only expenses directly attributed to insurance activities, remained flat at 32% for 2023 (2022: 32%). For 2023, non-directly attributable expenses of $365.8m (2022: $217.6m) fall outside the insurance result. Taking these items together, total expenses for 2023 totalled $1,728.4m (2022: $1,435.2m).

We continue to focus on our total expense base, allowing for additional expenses where aligned to underlying business growth or to enhancement to our business model. The latter includes execution of our three platform strategy, modernisation of our underwriting and finance platforms, setting up of an onshore E&S carrier and digital trading capabilities. Given the increased focus on the above areas, proportionately more of the total expenses incurred during the year were recognised outside the directly attributable than in 2022.

During 2023, we have also recognised increased remuneration expense due to the substantial increase in profit.

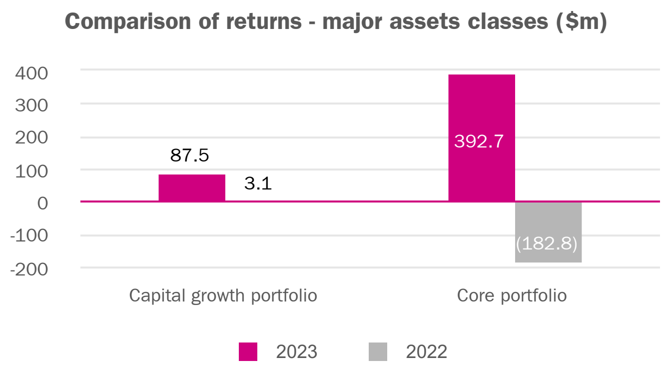
Foreign exchange
The majority of Beazley's business is transacted in US dollars, which is the currency we have reported in since 2010 and the currency in which we aim to hold the Company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and a material number of our staff receive their salary in sterling. Beazley's foreign exchange gain taken through the statement of profit or loss in 2023 was $4.5m (2022: $17.3m loss).

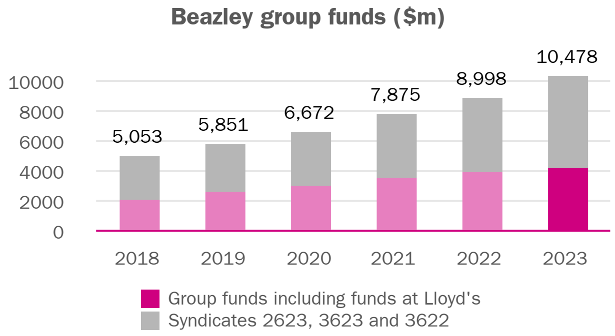
Investment performance
Our investments generated a return of $480.2m, or 4.9% in 2023 (2022: a loss of $179.7m, or 2.1%). This is, by some margin, the highest contribution from investments in our history. It is partly a consequence of the ongoing growth in our financial assets, which reached $10.5bn as at 31 December (2022: $9.0bn). It also reflects the yields available on fixed income investments, which are much higher than in recent years, as well as strong returns from equity and credit exposures.

Considering the year as a whole, US bond yields were little changed at most maturities, so that the returns achieved on our fixed income portfolio closely reflected starting yields. Within the year, yields rose significantly in the first nine months driven by ongoing inflationary pressures and resilient economic growth. However, within the final quarter, yields declined as the markets began to anticipate a lower interest rate environment in 2024. As a result, more than half of our 2023 investment return was generated in the final two months of the year.

Equity markets were also volatile, but posted strong gains overall. Our modest equity exposures, focused on US markets and selected to reflect our responsible investment commitments, returned more than 26% in 2023, with the strongest performance again in the final months of the year. High yield credit exposures also produced good returns as credit spreads declined, while our alternative investments, which are predominantly in hedge funds, generated more modest returns. We continue to build our impact portfolio, targeting up to $100m in investment opportunities which have measurable social or environmental benefits. To date, we have made commitments totalling $31m, to three different impact funds. These investments are at an early stage, but initial returns are encouraging. From 2024, we will also be measuring progress against their impact objectives.

Although yields have declined in recent months, levels are similar to those at the beginning of 2023: The yield of our fixed income portfolio at 31 December 2023 was 4.8% with a duration of 1.8 years. This suggests that the good contribution from our investments in 2023 could be repeated in 2024, given stability in financial markets. However, such stability is likely to remain elusive, as global geo-political risks remain elevated and forthcoming elections, in the US, UK and elsewhere, may generate further uncertainty.





The table below details the breakdown of our portfolio by asset class:

	31 Dec 2023		31 Dec 2022	
	$m	%	$m	%
Cash and cash equivalents	812.3	7.8	652.5	7.3
Fixed and floating rate debt securities				
– Government issued	4,469.1	42.6	5,006.3	55.6
– Corporate bonds				
– Investment grade	3,578.3	34.1	2,050.5	22.8
– High yield	489.0	4.7	308.7	3.4
Syndicate loans	34.1	0.3	32.5	0.4
Derivative financial assets	10.0	0.1	34.7	0.4
Core portfolio	9,392.8	89.6	8,085.2	89.9
Equity funds	282.7	2.7	159.4	1.8
Hedge funds	582.2	5.6	530.6	5.9
Illiquid credit assets	220.1	2.1	222.9	2.4
Total capital growth assets	1,085.0	10.4	912.9	10.1
Total	**10,477.8**	**100.0**	**8,998.1**	**100.0**

Comparison of return by major asset class:

	31 Dec 2023		31 Dec 2022	
	$m	%	$m	%
Core portfolio	392.7	4.5	(182.8)	(2.4)
Capital growth assets	87.5	8.8	3.1	0.3
Overall return	**480.2**	**4.9**	**(179.7)**	**(2.1)**

Tax

Beazley is liable to corporation tax in a number of jurisdictions, notably the UK, the US and Ireland. Beazley's effective tax rate is thus a composite tax rate mainly driven by the Irish, UK and US tax rates. The weighted average of the statutory tax rates for the year was 17.6% (2022: 19.0%). The tax rate of 17.6% is lower than last year due to this year's composition of profits and losses across the Group.

The effective tax rate has increased in 2023 to 18.1% (2022: 17.2%).

Financial review
Balance sheet management

Summary statement of financial position

	2023 $m	2022[1] $m	Movement %
Intangible assets	165.3	128.8	28
Insurance contract assets	101.5	84.1	21
Reinsurance contract assets	2,426.7	2,175.3	12
Other assets	494.1	326.7	51
Financial assets at fair value and cash and cash equivalents	10,477.8	8,998.1	16
Total assets	**13,665.4**	**11,713.0**	**17**
Insurance contract liabilities	7,992.2	7,349.8	9
Reinsurance contract liabilities	333.5	161.2	107
Financial liabilities	554.6	562.5	(1)
Other liabilities	903.0	684.5	32
Total liabilities	**9,783.3**	**8,758.0**	**12**
Net assets	**3,882.1**	**2,955.0**	**31**
Net assets per share (cents)	**585.8c**	**444.1c**	**32**
Net tangible assets per share (cents)	**560.9c**	**424.7c**	**32**
Net assets per share (pence)	**468.6p**	**364.2p**	**29**
Net tangible assets per share (pence)	**448.7p**	**348.3p**	**29**
Number of shares[2]	**662.7m**	**665.4m**	**—**

1 The Group has restated its summary statement of financial position as at 31 December 2022 following the adoption of IFRS 17.
2 Excludes shares held in the employee share trust and treasury shares.

Intangible assets

Intangible assets consist of goodwill on acquisitions of $62.0m (2022: $62.0m), purchased syndicate capacity of $31.3m (2022: $13.7m), US admitted licences of $9.3m (2022: $9.3m) and capitalised expenditure on IT projects of $62.7m (2022: $43.8m).

Net reinsurance contract assets

Net reinsurance contract assets represent recoveries from reinsurers, and are comprised of the asset for remaining coverage (ARC) and the asset for incurred claims (AIC). At 31 December 2023, the ARC was in a net liability position of $321.9m (2022: $229.8m net liability) as the future premium payable to the reinsurers was higher than the expected claim recoveries. The AIC was in a net asset position of $2,415.1m at 31 December 2023 (2022: $2,243.9m net asset).

The Group's exposure to reinsurers is managed through:
- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail);
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by our Reinsurance Security Committee and Credit Control Committee.

Net insurance contract liabilities

Net insurance contract liabilities of $7,890.7m (2022: $7,265.7m) consist of two main elements, being the liability for remaining coverage (LRC) and the liability for incurred claims (LIC).

Our LRC balance is made up of a reserve for expected claims, a risk adjustment, a contractual service margin, provision for onerous contracts and premium debtors. At 31 December 2023, the LRC balance was $755.4m (2022: $747.6m). Our LIC has increased by 9% to $7,135.3m (2022: $6,518.1m).

CSM Sustainability

The Contractual Service Margin (CSM) reflects the expected profit of contracts within the asset/liability for remaining coverage. We have calculated the CSM sustainability as the closing CSM divided by the opening CSM, and thus a value of 1 and above shows that the expected profit within the ARC/LRC is higher than the previous valuation. For more information on CSM Sustainability, including the calculation, please refer to the APM section on pages 253 to 255.

As at 31 December 2023, the gross CSM sustainability score was 1.01 (2022: 1.79) while the net CSM sustainability score was 1.17 (2022: 1.27). This is a pleasing result and shows the strength of the expected profit contained on the balance sheet has increased on both a gross and net basis during 2023. This puts us in good stead as we move in to 2024.

Discounting impacts

During 2023, the net finance expense was $153.4m (2022: net finance income $183.0m), which was broken down into a $294.7m (2022: $125.2m) unwind of discounting recognised on existing business, partially offset by $141.3m (2022: $308.2m) of income from changes in financial assumptions.

Financial liabilities

Financial liabilities comprise borrowings and derivative financial liabilities. The Group utilises two long-term debt facilities:

- in November 2016, Beazley Insurance dac issued $250.0m of 5.875% subordinated tier 2 notes due in 2026; and
- in September 2019, Beazley Insurance dac issued $300.0m of 5.5% subordinated tier 2 notes due in 2029.

A syndicated short-term banking facility led by Lloyds Banking Group plc provides potential borrowings up to $450.0m. Under the facility $450.0m may be drawn as letters of credit to support underwriting at Lloyd’s, and up to $225.0m may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.4725% per annum, and any amounts drawn are charged at a margin of 1.35% per annum.

The cash element of the facility will expire on 25 May 2026, whilst letters of credit issued under the facility can be used to provide support for the 2023, 2024 and 2025 underwriting years. In 2023 $225.0m has been placed as a letter of credit as Funds at Lloyd’s (FAL).

Other assets

Other assets are analysed separately in the notes to the financial statements. The items included comprise:

- amounts due from syndicates 623 and 4321;
- prepayments and accrued income; and
- other receivables.