

**BRIT REINSURANCE (BERMUDA) LIMITED
REPORT & FINANCIAL STATEMENTS**

31 December 2020

Company Registration No. 53121

Brit Reinsurance (Bermuda) Limited

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Brit Reinsurance (Bermuda) Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Executive Directors:

K Grieves
J Bonanno (resigned 4 August 2020)
C Denton (appointed 28 September 2020)

Non-Executive Directors:

G Pewter (Independent Chairman)
M Allan
J Nichols (Independent)
A Waring (Independent)

Secretary:

Conyers Corporate Services (Bermuda) Limited

Registered Office:

2 Church Street,
Clarendon House,
Hamilton HM CX,
Bermuda

Independent Auditor's:

PricewaterhouseCoopers Limited
P.O. Box HM1171,
Hamilton, HM EX,
Bermuda

Brit Reinsurance (Bermuda) Limited

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2020.

Principal activities

The principal activity of Brit Reinsurance (Bermuda) Limited (the Company or Brit Re) is that of underwriting reinsurance business for the Brit Limited group of companies, which is a subsidiary of Fairfax Financial Holdings Limited. From 1 January 2020, Brit Re commenced writing third party casualty treaty and property treaty business. For all of these activities the Company holds a Class 3B licence issued by the Bermuda Monetary Authority.

Review of business

	2020 US\$m	2019 US\$m
Gross premiums written	308.7	315.5
Net premiums written	308.5	310.7
Net premiums earned	299.8	306.3
Net claims incurred	(289.4)	(184.3)
Underwriting related expenses	(20.2)	(24.7)
Underwriting result	(9.8)	97.3
Investment return net of fees	12.6	78.4
Profit before the effect of FX	2.8	175.7
Effect of foreign exchange	(2.3)	(7.1)
Profit on ordinary activities before tax	0.5	168.6
Combined ratio	103.3%	68.3%

In 2020, the Quota Share contract and aggregate stop loss policies in place with the Brit Limited group of companies were written on a similar basis to previous years. Overall Gross written premiums (GWP) decreased by 2.2% to US\$308.7m (2019: US\$315.5m) reflecting a decline in premium on the aggregate stop loss policy due to a higher attachment point partially offset by a growth in the quota share premium and writing a small amount of third party casualty and property business. Growth in current year quota share premiums against 2019 arose from Syndicate 2987's London Direct portfolio (Specialty and Property), London Reinsurance portfolio (Property and Casualty) and Overseas Distribution portfolio. Syndicate 2987 exited certain classes and actively non-renewed accounts following underwriter action. This combined with the strategic reduction in proportional reinsurance, offset premium growth.

The Company continues to face political and economic uncertainty and challenges. 2020 saw Covid-19 along with capacity withdrawals, rising social inflation and highly publicised major losses which have resulted in an acceleration of rate increases in all classes ceded via the quota share contract except Terrorism.

Net claims incurred during 2020 amounted to US\$289.4m (2019: US\$184.3m) with major losses a significant factor in the Company's result for the 2020 financial year. 2020 saw an elevated frequency of named US windstorms with the Company picking up losses from several of those events, coupled with losses from the Nashville Tornadoes and US Civil Unrest earlier in the year. In addition, the financial impact of Covid-19 on the Company has been significant. Covid-19 has predominantly impacted the Contingency (Event Cancellation) and Casualty Treaty books within Syndicate 2987.

The underlying claims performance in 2020 showed improvement, reflecting favourable underlying claims experience across Syndicate 2987's Direct portfolio (principally Programmes and Facilities, Property and Specialty) and the effect of strong compound rate increases, combined with a change in mix as Syndicate 2987 targeted growth on high-performing segments while taking remedial action on more marginal business.

Brit Reinsurance (Bermuda) Limited

STRATEGIC REPORT *(continued)*

Review of business (continued)

The Company's expenses excluding foreign exchange decreased by 22.3% to US\$20.2m (2019: US\$24.7m), predominantly reflecting a reduction in the commissions paid.

Against this backdrop, net investment return, net of fees, during 2020 was a profit of US\$12.6m or 0.7% of average invested assets (2019: profit of US\$78.4m or 5.3% of average invested assets). This was driven by gains on Fixed Income securities, partially offset by losses on Funds and Equities.

The profit on ordinary activities for the year before tax and foreign exchange was US\$2.8m (2019: profit of US\$175.7m) and profit before tax was US\$0.5m (2019: profit of US\$168.6m). The 2020 combined ratio (excluding effect of FX) was 103.3% (2019: 68.3%).

Foreign exchange losses, net of returns on foreign exchange related derivatives, totalled US\$2.3m (2019: loss of US\$7.1m). The loss on foreign exchange reflects the movement in Sterling against the US dollar during the year. A proportion of revenues and expenses, and assets and liabilities, are denominated in currencies other than US dollars, hence the Company is exposed to fluctuations in the values of those currencies against the US dollar. The Company sought to reduce the impact on the result of the effects of movements in foreign exchange rates by matching the currencies of liabilities and capital requirements with the assets held.

The Company has maintained a strong balance sheet and capital position. The Company's net assets increased by US\$50.6m to US\$1,086.6m reflecting profit after tax of US\$0.6m and a capital injection of US\$50.0m.

Principal risks and uncertainties

The information on principal risks and uncertainties is disclosed in Note 4 to the financial statements.

This report was approved by the Company's Board of Directors on 22 April 2021.



K Grieves
Director

Brit Reinsurance (Bermuda) Limited

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements for the year ended 31 December 2020.

Directors

The Directors of the Company who served during the year were as follows:

G Pewter (Independent Non-Executive Chairman)
K Grieves (Executive)
C Denton (Executive) (Appointed 28 September 2020)
J Bonanno (Executive) (Resigned 4 August 2020)
M Allan (Non-Executive)
J Nichols (Independent Non-Executive)
A Waring (Independent Non-Executive)

None of the Directors had any interest in the share capital of the Company.

Results and dividends

The profit for the year, after taxation, amounted to US\$0.6m (2019: profit of US\$168.5m).

The Company did not pay a dividend during the year (2019: US\$40.0m). The Directors do not recommend the payment of a final dividend (2019: US\$nil).

Research and development

The Company has not undertaken any research and development activities during the year.

Financial instruments

Details of financial instruments are provided in Note 12 and Note 13 to the financial accounts.

Charitable giving

The Company is committed to supporting the communities in which it operates and charities that are meaningful to its employees. Our objective is to select charitable giving and community projects based on three criteria: projects should be for a good cause and operate in an area relevant to us, financial involvement should be for the benefit of the good cause, and projects should offer alignment with our strategic priorities.

Staff costs

Related staff costs are disclosed in Note 10 of these financial statements.

Environmental matters

The Company is committed to managing and reducing its environmental impact in a cost effective and responsible way. Further detail on this is available in the Brit Limited's annual report and accounts for the year ended 31 December 2020, copies of which can be obtained from The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB, or by visiting www.britinsurance.com.

Brit Reinsurance (Bermuda) Limited

DIRECTORS' REPORT *(continued)*

A.M. Best credit rating

On 16 October 2020 AM Best affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a" of Brit Re. The outlook of these Credit Ratings (ratings) is stable. This rating reflects Brit Re's balance sheet strength, which A.M Best assessed as 'very strong'.

United Kingdom's exit from the European Union (Brexit)

The Brexit transition period ended on 31 December 2020 with a trade deal being agreed on 24 December 2020. The trade deal came into effect on 1 January 2021 replacing the existing arrangements under the transition period. The Brit Re quota share relies on the business written by Syndicate 2987. The key risk to the Syndicate was considered to be the successful completion of the Part VII transfer to Lloyd's Brussels as the Syndicate's ability to service historical policies with EEA claims was dependent on this. The Part VII transfer was successfully completed on 30 December 2020 as originally scheduled. It should be noted that the Syndicate has been successfully writing EU business via Lloyd's Brussels since 1 January 2019.

Coronavirus (Covid-19) outbreak

Covid-19 has had a significant impact on the insurance industry, with commentators likening the direct effect of the pandemic to 9/11 or the combined effects of Hurricanes Katrina, Rita and Wilma. Lloyd's has suggested that Covid-19 could be the market's largest ever single loss event, initially estimating a potential of US\$107bn in claims, with Lloyd's share likely to be in excess of US\$4.0bn. Given the protracted nature of the pandemic, these estimates are likely to be significantly exceeded.

Our immediate priorities as the crisis emerged were to ensure the safety of our employees and continuity of our service to our clients and brokers. All of Brit's offices were quickly and successfully able to move to remote working using our robust IT estate and systems and have maintained a continuity of service to our clients, remaining fully open for business throughout the lockdown period. Our underwriters have been actively engaging with clients and brokers, delivering market-leading responsiveness. Our Claims team continues to service our policyholders in these challenging circumstances, proactively working with our TPAs to ensure claims continue to be handled promptly and to our usual high standards.

The financial impact on Brit Re has been significant, with claims of US\$49.6m related to Covid-19 being reported in the period. Covid-19 is a highly unusual insurance event, 'earning' over a prolonged period. Estimating the overall cost is highly subjective and is dependent on factors such as how long lockdowns and social distancing continue, the ability to reschedule events and the potential of minimising cost by either the early cancelling/postponing of events or holding them behind closed doors. All these factors play into our loss estimates.

We also continue to monitor our wider business, which may be impacted by claims arising directly or indirectly from the events unfolding, and we continue to consider the potential impact on medium-term claims from a global recession, which typically brings increased moral hazard, fraud and a more litigious environment generally.

Brit notes the outcome of the Supreme Court ruling on 15 January 2021 in respect of the Financial Conduct Authority's Covid-19 related business interruption test case. Brit was not party to this action, the outcome of which does not have a material impact on the Company.

Investment markets were also significantly impacted by Covid-19. In the first quarter of 2020, markets suffered their worst quarter since the financial crisis as investors priced in the short-term impact of Covid-19 and potential longer-term impact of a global recession.

Markets subsequently rebounded following fiscal and monetary stimulus and recovered further in quarter four following positive vaccine news, with value stocks performing particularly well. The Company's investment return for the twelve months to 31 December 2020 was a positive US\$12.6m.

Brit Reinsurance (Bermuda) Limited

DIRECTORS' REPORT *(continued)*

Statement of disclosure of information to the auditor's

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor's in connection with preparing its report, of which the auditor's are unaware. Having made enquiries of fellow Directors and the auditor's, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor's are aware of that information.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the The Bermuda Insurance Act 1978. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's

PricewaterhouseCoopers LLP remain in office as the Company's auditors.

This report was approved by the Company's Board of Directors on 22 April 2021.



K Grievés
Director



Independent auditor's report

To the Board of Directors and Shareholders of Brit Reinsurance (Bermuda) Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Brit Reinsurance (Bermuda) Limited (the Company) as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) comprising Financial Reporting Standard 102 and Financial Reporting Standard 103.

What we have audited

The Company's financial statements comprise:

- the income statement for the year ended December 31, 2020;
- the statement of financial position as at December 31, 2020;
- the statement of changes in equity for the year then ended and;
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Other information

Management is responsible for the other information. The other information comprises the listing of Directors and officers of the Company, the strategic report and the Director's report (but does not include the financial statements and our auditor's report thereon).



Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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, 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.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) comprising Financial Reporting Standard 102 and Financial Reporting Standard 103 and for such internal control as management determines 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, management is responsible for assessing the Company's ability to continue as a going concern, 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.

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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Private Home Cooper Ltd.

Chartered Professional Accountants

Hamilton, Bermuda

April 23, 2021

Brit Reinsurance (Bermuda) Limited
INCOME STATEMENT for the year ended 31 December 2020

TECHNICAL ACCOUNT - GENERAL BUSINESS

	Note	2020 US\$m	2019 US\$m
Gross premiums written	6	308.7	315.5
Outward reinsurance premiums	6	(0.2)	(4.8)
Net premiums written	6	308.5	310.7
Change in the gross provision for unearned premiums	6	(8.5)	(4.7)
Change in the provision for unearned premiums, reinsurers' share	6	(0.2)	0.3
Net change in the provision for unearned premiums		(8.7)	(4.4)
Earned premiums, net of reinsurance	6	299.8	306.3
Allocated investment return transferred from the non-technical account	5	12.6	78.4
		312.4	384.7
Claims incurred, net of reinsurance:			
Claims paid:			
- Gross amount	7	(185.8)	(175.9)
- Reinsurers' share		-	-
Net claims paid		(185.8)	(175.9)
Change in the provision for claims:			
- Gross amount	7	(103.7)	(8.4)
- Reinsurers' share		0.1	-
Net change in the provision for claims		(103.6)	(8.4)
Claims incurred, net of reinsurance	7	(289.4)	(184.3)
Net operating expenses	9	(22.5)	(31.8)
		(311.9)	(216.1)
Balance on the technical account for general business		0.5	168.6

The notes on pages 14 to 47 form part of these financial statements.

Brit Reinsurance (Bermuda) Limited
INCOME STATEMENT for the year ended 31 December 2020

NON-TECHNICAL ACCOUNT

	Note	2020 US\$m	2019 US\$m
Balance on the technical account for general business		0.5	168.6
Investment income		35.2	33.9
Unrealised (losses) / gains on investments		(17.8)	76.5
Realised gains / (losses) on investments		0.2	(27.8)
Investment expenses and charges		(5.0)	(4.2)
Net investment return	5	12.6	78.4
Allocated investment return transferred to general business technical account		(12.6)	(78.4)
Profit on ordinary activities before taxation		0.5	168.6
Tax on ordinary activities	11	0.1	(0.1)
Profit for the financial year		0.6	168.5

No other comprehensive income has been recognised and therefore no statement of other comprehensive income has been presented.

The notes on pages 14 to 47 form part of these financial statements.

Brit Reinsurance (Bermuda) Limited
 STATEMENT OF FINANCIAL POSITION as at 31 December 2020

	Note	2020 US\$m	2019 US\$m
Assets			
Investments:			
Financial investments	12	1,691.9	1,469.0
Derivative assets	13	11.1	12.5
		1,703.0	1,481.5
Reinsurers' share of technical provisions:			
Provision for unearned premium	6	0.1	0.3
Provision for claims outstanding	7	0.1	-
		0.2	0.3
Debtors:			
Debtors arising out of reinsurance operations		135.2	127.0
Amounts due from Group Undertakings	14	20.5	130.0
Other debtors	15	1.3	3.9
		157.0	260.9
Other assets:			
Cash at bank and in hand		64.9	8.9
		64.9	8.9
Prepayments and accrued income:			
Deferred acquisition costs	17	6.8	6.5
Other prepayments and accrued income		6.6	7.4
		13.4	13.9
Total assets		1,938.5	1,765.5

The notes on pages 14 to 47 form part of these financial statements.

Brit Reinsurance (Bermuda) Limited
STATEMENT OF FINANCIAL POSITION as at 31 December 2020

	Note	2020 US\$m	2019 US\$m
Equity and liabilities			
Capital and reserves:			
Called up share capital	16	659.2	609.2
Retained earnings		427.4	426.8
Total capital and reserves		1,086.6	1,036.0
Technical provisions:			
Provision for unearned premium	6	111.4	102.1
Claims outstanding	7	734.4	622.3
		845.8	724.4
Creditors:			
Derivative liabilities	13	1.0	1.8
Creditors arising out of reinsurance operations		4.2	2.3
Other creditors	18	0.5	0.5
Accruals and deferred income		0.4	0.3
Other provisions	19	-	0.2
		6.1	5.1
Total liabilities		851.9	729.5
Total equity and liabilities		1,938.5	1,765.5

The financial statements on pages 9 to 47 were approved by the Board of Directors on 22 April 2021 and signed on its behalf by:



K Grieves
Director



C Denton
Director

The notes on pages 14 to 47 form part of these financial statements.

Brit Reinsurance (Bermuda) Limited

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2020

	Called up share capital	Retained earnings	Total equity
	US\$m	US\$m	US\$m
At 1 January 2020	609.2	426.8	1,036.0
Profit for the financial year	-	0.6	0.6
Issuance of share capital	50.0	-	50.0
At 31 December 2020	659.2	427.4	1,086.6
Of which is attributable to:			
Ordinary shareholders	659.2	427.4	1,086.6

	Called up share capital	Retained earnings	Total equity
	US\$m	US\$m	US\$m
At 1 January 2019	609.2	298.3	907.5
Profit for the financial year	-	168.5	168.5
Dividend paid during the year	-	(40.0)	(40.0)
At 31 December 2019	609.2	426.8	1,036.0
Of which is attributable to:			
Ordinary shareholders	609.2	426.8	1,036.0

The notes on pages 14 to 47 form part of these financial statements.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

1. Structure of the Company

The Company is incorporated in Bermuda as a Class 3B reinsurer in accordance with the provisions of The Bermuda Insurance Act 1978.

The registered office of the Company is 2 Church Street, Clarendon House, Hamilton HM CX Bermuda.

2. Basis of preparation and Statement of compliance

The financial statements cover those of the individual entity and are prepared as at and for the year ended 31 December 2020. The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified for the fair value of financial instruments carried at fair value through profit or loss and in accordance with Financial Reporting Standard 102 (FRS 102) and Financial Reporting Standard 103 (FRS 103), being applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Legislation applied in the preparation of these financial statements includes the Bermuda Insurance Act 1978.

The financial statements are presented in US dollars (US\$) which is the Company's functional currency and rounded to the nearest US\$0.1m. Items included in the annual financial statements are measured using the functional currency which is the primary economic environment in which the Company operates.

The financial statements for the year ended 31 December 2020 were approved for issue by the Board of Directors on 22 April 2021.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

3. Principal accounting policies

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company's financial statements:

a) Underwriting activities

- (i) Premiums written relate to reinsurance inwards business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less an allowance for cancellations. Premiums are accreted to the income statement on a pro rata basis over the term of the related policy, except for those contracts where the period of risk differs significantly from the contract period. Premiums are recognised over the period of risk in proportion to the amount of reinsurance protection provided. Reinstatement premiums are accreted to the income statement on a pro rata basis over the term of the original policy to which they relate.
- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statement of financial position date, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that premium is recognised over the period of the risk.
- (iii) Commission and other acquisition costs incurred during the financial year that are related to securing new reinsurance inwards contracts and/or renewing existing reinsurance inwards contracts, but which relate to subsequent financial years, are deferred to the extent that they are recoverable out of future revenue margins.
- (iv) Deferred acquisition costs are earned over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.
- (v) Claims incurred comprise claims and claims handling costs paid in the year and changes in the outstanding claims provisions, including provisions for claims incurred but not reported (IBNR) and related expenses. Claims handling costs are mainly those external costs related to the negotiation and settlement of claims.
- (vi) Claims outstanding represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the statement of financial position date, including IBNR, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.
- (vii) The ultimate cost of outstanding claims is based on statistical techniques of estimation applied by the Company's internal actuaries. The primary sensitivity in these methods is the assumption that past experience is indicative of the final outcome of current business and, where past experience is insufficient that the market benchmarks are representative of the Company's own underwriting.
- (viii) Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims IBNR.
- (ix) Whilst the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the income statement for the period in which the adjustments are made.
- (x) Premiums and claims on reinsurance assumed are recognised in the income statement along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the income statement on a pro rata basis over the term of the original policy to which they relate.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

3. Principal accounting policies (continued)

b) Other Accounting Policies

- (i) Transactions in foreign currencies other than Sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in Sterling, Canadian dollars and Euros are translated at the average rates of exchange for the period. Monetary assets and liabilities in currencies other than US dollars are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Company's reinsurance operations are included within net operating expenses in the technical account.
- (ii) Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to enter into an operating lease are similarly spread on a straight-line basis over the lease term.
- (iii) Where a building held under an operating lease is no longer employed by the Company, a provision is set up equal to the net amount of future rent payments to the expiry of the lease less any future rent receipts expected to be received from subleasing the building.
- (iv) Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made at the date of the statement of financial position. Provisions are discounted for the time value of money where the effect of this is material.
- (v) Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, charges, dividend income and interest. Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the statement of financial position date and their valuation at the previous statement of financial position date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.
- (vi) Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds. Interest income is recognised using the effective interest method. Dividend income is recognised when the shareholder's right to receive payment is established.
- (vii) The Company has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Company's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Directors of the Company and management on a fair value basis.
- (viii) The fair values of quoted financial investments are based on current bid prices. If the market for an investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models. Gains and losses on investments designated as FVTPL are recognised through the income statement. Investments are held on the Statement of financial position at fair value

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

3. Principal accounting policies (continued)

b) Other Accounting Policies (continued)

- (ix) Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the contract.
- (x) A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.
- (xi) A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.
- (xii) All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Company's commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.
- (xiii) Financial assets other than investments are carried at amortised cost less impairment. If the carrying value of such an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
- (xiv) Derivative financial instruments are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate.
- (xv) Withholding taxes on investment income are presented as taxation on ordinary activities and measured based on the prevailing withholding tax rates applicable to the investment. Final dividends and capital distributions to the Company's shareholder are recognised in the financial statements in the period in which they are declared in general meeting or by the member passing a written resolution. Interim dividends or capital distributions are recognised when they are paid.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

3. Principal accounting policies (continued)

c) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Company will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and IBNR to be included within provisions for inwards insurance and reinsurance contracts;
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business;
- The recoverability of amounts due from reinsurers; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

Financial Investments

Financial investments are carried in the statement of financial position at fair value. The carrying amount of financial investments at the date of the statement of financial position was US\$1,691.9m (2019: US\$1,469.0m). Determining the fair value of certain investments requires estimation.

The Company value investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with that set out in FRS 102. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that the Company considers market participants would normally use (level three). 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 and accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one. At 31 December 2020, financial investments amounting to US\$86.5m (2019: US\$68.3m) were classified as level three.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies

4.1 Risk management overview

The Company's activities expose it to a number of key risks which have the potential to affect its ability to achieve its business objectives. The following describes the Company's financial and insurance risk management from a quantitative and qualitative perspective.

The risks arising from any of the business activities are managed in line with the Risk Management Framework (RMF) in order to protect policyholders and maximise shareholder value. This established framework addresses all the risks surrounding the organisation's activities past, present and, in particular, future. It sets out risk management standards, risk appetite and provides a consistent methodology and structure to the way in which the risks are identified, measured and managed.

The key elements of the RMF are set out below:

- **Identification:** Risk events, risks and relevant controls are identified, classified and recorded in the risk register. This is a continuous process which considers any emerging and existing risks.
- **Measurement:** Risks are assessed and quantified, and controls are evaluated. This is done through a combination of stochastic modelling techniques, stress and scenario analysis, and reverse stress testing and qualitative assessment using relevant internal and external data.
- **Management:** The information resulting from risk identification and measurement is used to improve how the business is managed.

These elements of the framework are supported by appropriate governance, reporting management information, policies, culture, and systems.

The ownership of many of the day-to-day activities is delegated to the relevant risk committee and members of the risk management team. The key categories of risk include: insurance, market, credit, liquidity and operational risks defined in line with GAAP requirements.

The key governance bodies of the Company in the risk management process are set out below:

- The Board, which is responsible for setting business and risk strategy and ensuring the principal risks and uncertainties facing the Company are managed;
- The Committees of the Company, including the Risk Oversight Committee and the Audit Committee; and
- The Management Committee, which is responsible for the management of the overall risk profile within the agreed limits.

The key risk exposures for the individual categories and how these are managed are discussed in the sections below.

4.2 Insurance risk

This is the risk of a financial loss due to actual experience being different than that assumed when an insurance product was designed and priced. This is the principal risk the Company is exposed to through the underwriting process which arises from the inherent uncertainty in the occurrence, timing and amount of the insurance liabilities.

This risk arises due to the possibility that insurance contracts are under-priced, under-reserved or subject to catastrophe claims.

The areas of insurance risk discussed below are underwriting (including aggregate exposure management) and reserving risk.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.3 Underwriting risk

This is the risk that the insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Company as a result of unpredictable events.

The Company is also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. The underwriting environment and the associated impact on premium rates, including trends due to the underwriting cycle, are factored into the Group's pricing models and risk management tools, and is continually monitored to assess whether any corrective action is required.

The technical pricing framework ensures that the pricing process in the Company is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each excess of loss risk written into the Company. The underwriting and actuarial functions work together to maintain the pricing model and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Company to maintain an effective rate monitoring process.

The Company also has developed underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to underwrite. The Underwriting Authority and Referral Criteria, in conjunction with Authority Letters, establish the guiding general principles and conditions to which the Underwriters must conform. Line size limits are in place with additional restrictions in place on catastrophe exposed business and types of business which may be written. Compliance is checked through both an independent peer review process and, periodically, by the internal audit department which is entirely independent of underwriting.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed and policy exclusions are applied.

The Company is rated 'A' by AM Best. Any future downgrade to the Company's credit rating may adversely affect the Company's standing in the market.

Underwriting risk profile

The underwriting strategy includes a diverse and balanced portfolio of risks. This portfolio is assessed as part of the business planning and strategy process which operates annually. The business plan is approved by the Board and is monitored monthly.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.3 Underwriting risk (continued)

Sensitivity to changes in net claims ratio

The Company profit/(loss) before tax is sensitive to an independent 1% change in the net claims ratio for each class of business as follows (N.B. third party business has been excluded from this analysis as it is not material):

Category	31 December 2020		31 December 2019	
	US\$m	%	US\$m	%
Quota Share	2.2	74%	2.1	68%
Excess of Loss	-	-	0.2	6%
Stop Loss	0.7	24%	0.8	26%
Advent	0.1	2%	-	-
Total	3.0	100%	3.1	100%

4.4 Reserving risk

This is the risk that the actual cost of losses for obligations incurred before the valuation date will differ from expectations or assumptions set as part of the reserving process. This is a key risk for the Company as the reserves for unpaid losses represent the largest component of the Company's liabilities and are inherently uncertain. The Management Committee chaired by the Finance Director is responsible for the management of the reserving risk for the Company.

The Company has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The claims policy sets out the approach to management of claims risk. In particular, this deals with notification, validation of policy terms and conditions, investigations and use of adjusters, assessors and other experts, setting of provisions for case estimates, negotiation and settlement of claims, claim authorities, the peer review process, file management, review and external audits, suspicious and disputed claims and ex-gratia payments. The Group has an experienced team of actuaries who perform the quarterly reserving analysis using a wide range of actuarial techniques to estimate the claims liabilities in line with the Reserving policy. They work closely together with other business functions such as underwriting, claims management and exposure management to ensure that they have a full understanding of emerging claims experience.

The Reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Management Committee as part of the formal governance arrangements for the Company. The estimate agreed by the committee is used as a basis for the Company's financial statements. The reserves in the financial statements are presented to the Audit Committee who recommend the reserves to the Board for ultimate sign off.

4.5 Investment risk management

Introduction

This section describes the Company's approach to managing its investment risk, from both a quantitative and a qualitative perspective. Investment risk includes market risk (which is covered in section 4.6), investment credit risk (which is covered in section 4.9) and liquidity risk (which is covered in section 4.10).

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.5 Investment risk management (continued)

Investment governance

Investment risk is managed in line with the elements of the RMF. The Board has overall responsibility for determining the investment strategy, including defining the risk tolerance. This is achieved through investment policies and guidelines, which reflect the risk appetite and the business strategy of the Company.

The Brit Reinsurance (Bermuda) Limited Board assesses the effectiveness of the Company's investment performance. The Investment strategy is executed through an outsourced investment management agreement, which is in line with prevailing regulations, with Hamblin Watsa Investment Counsel Ltd. (HWIC) and a selection of other third-party Investment Managers.

The Risk Oversight Committee ensures that the investment risk is managed within the framework and also reports to the Board. A Group Investment Operations Committee oversees the operational risk that is relevant to the investment management function which is then reported to the Management Committee, as well as Risk Oversight Committee and Board as relevant.

Quarterly information is provided covering portfolio composition, performance and forecasting. Any operational issues and breaches to the risk appetite framework are reported to the Risk Oversight Committee and the Board.

Risk tolerance

Investment risk tolerances are set by the Board, defining the Company's appetite to investments, solvency risk, currency risk and liquidity risk. The appetite for these elements of investment risk is derived from the overall risk appetite and business strategy of the Company and reflects a number of factors, including the current and expected economic climate, capital management strategy, liquidity needs and asset liability matching (ALM) policy. The investment risk tolerance helps determine the investment strategy.

Risk metrics are monitored and reported on regularly to ensure that performance is within the Board-approved levels, and limits continue to remain appropriate, within the governance framework highlighted above.

Solvency matching

Assets are considered by both currency and duration profile in relation to the liabilities thereby managing the impact of foreign exchange and interest rate risk on the solvency position.

Under this strategy, the assets are sought to be held in proportion to the currencies of the technical provisions. A solvency matched benchmark is calculated which is the cash flow profile for investments which would minimise the sensitivity of the Company's solvency position to changes in interest and exchange rates. The Company seeks to implement this strategy through the use of cash, investments and foreign exchange forward contracts in the respective currencies. The investment guidelines stipulate duration limits and the positioning and sensitivity for both the asset and solvency position is reported quarterly.

Investment management

The investment management strategy is delivered through outsourced Investment Management Agreements (IMAs) with HWIC and a selection of other third party investment managers. The IMAs prescribe the investment parameters within which HWIC and the other managers are permitted to make asset allocation decisions on behalf of the Company. The Company's investment policy detail the parameters, roles and responsibilities relating to the management of the investment portfolio.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.6 Market risk profile

Introduction

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

Interest rate risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Company is exposed to interest rate risk through its investment portfolio and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security to a 100 basis points parallel shift in interest rates. The longer the duration of a security, the more sensitive it is to changes in interest rates.

The banded durations of the Company's financial investments and cash and cash equivalents sensitive to interest rate risk are shown in the table below:

As at 31 December 2020		Duration					
Assets	Statement of financial position	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	1,691.9	806.1	287.5	245.5	176.2	176.6	1,691.9
Derivatives	11.1	10.8	-	0.2	0.1	-	11.1
Cash at bank and in hand	64.9	64.9	-	-	-	-	64.9
	1,767.9	881.8	287.5	245.7	176.3	176.6	1,767.9

As at 31 December 2019		Duration					
Assets	Statement of financial position	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	1,469.0	794.0	246.9	162.0	118.4	147.7	1,469.0
Derivatives	12.5	12.4	-	-	0.1	-	12.5
Cash at bank and in hand	8.9	8.9	-	-	-	-	8.9
	1,490.4	815.3	246.9	162.0	118.5	147.7	1,490.4

The duration of the investment portfolio is set within an allowable range relative to the targeted duration.

As the claims liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates. This leads to the conflict between targeting a longer duration to protect the solvency position against movements in interest rates, whilst a shorter duration for the assets will reduce the possible volatility around the income statement.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.6 Market risk profile (continued)

Sensitivity to changes in investment yields

The sensitivity of profit to the changes in the investment yields is set out in the table below. The analysis is based on the information as at 31 December 2020.

(US\$m)	Impact on profit before tax	
	2020	2019
Increase		
25 basis points	(7.9)	(5.9)
50 basis points	(15.7)	(11.7)
100 basis points	(31.5)	(23.4)
Decrease		
25 basis points	7.8	5.9
50 basis points	15.6	11.7
100 basis points	31.2	23.4

The effect on shareholder's equity would be the same as the effect on profit. The assets included within this sensitivity analysis exclude the exposure to funds, which for the purpose of this calculation, are assumed to have zero duration.

4.7 Currency risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Company. The Company matches assets to liabilities for each of the main currencies. Company capital is held in proportion to the liabilities, to minimise the impact on solvency and distributable earnings from movements in exchange rates. The split of assets and liabilities for each of the Company's main currencies, converted to US Dollars, is set out in the tables below:

Converted millions As at 31 December 2020	US\$	GBP £	US \$	CAD \$	EUR €	Total
Total assets		83.7	1,780.6	52.4	75.2	1,991.9
Total liabilities		(260.6)	(593.2)	(28.4)	(23.1)	(905.3)
Net assets excluding the effect of derivatives		(176.9)	1,187.4	24.0	52.1	1,086.6
Adjustment for foreign exchange derivatives		268.7	(251.2)	(12.5)	(5.0)	-
Adjusted net assets		91.8	936.2	11.5	47.1	1,086.6

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.7 Currency risk (continued)

As at 31 December 2019					
Total assets	110.8	1,487.8	56.5	100.7	1,755.8
Total liabilities	291.2	385.8	23.7	19.1	719.8
Net assets excluding the effect of derivatives	(180.4)	1,102.0	32.8	81.6	1,036.0
Adjustment for foreign exchange derivatives	404.6	(273.1)	(54.2)	(77.3)	-
Adjusted net assets	224.2	828.9	(21.4)	4.3	1,036.0

The non-US dollars denominated net assets of the Company may lead to profits or losses (depending on the mix relative to the liabilities), should the US dollar strengthen against these currencies.

The Company matches its currency position so holds net assets across a number of currencies. The Company takes into consideration the underlying currency of its liabilities and invests its assets proportionately across these currencies so as to protect the solvency of the Company, and hence capital available for distribution to the shareholder, against variation in foreign exchange rates. As a result, the Company holds a significant proportion of its assets in foreign currency investments.

Foreign currency forward contracts are used to achieve the desired exposure to each currency. From time to time the Company may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to shareholder value from reducing the chance of a reported loss due to changes in foreign currency exchange rates.

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change movement in the relative strength of the US dollar against the value of Sterling, Canadian dollar, Australian dollar and Euro simultaneously. The analysis is based on information as at 31 December 2020.

(US\$m)	Impact on profit before tax	
	2020	2019
US dollar weakens		
10% against other currencies	15.0	20.7
20% against other currencies	30.1	41.4
US dollar strengthens		
10% against other currencies	(15.0)	(20.7)
20% against other currencies	(30.1)	(41.4)

The effect on shareholder's equity would be the same as the effect on profit.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.8 Other price risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Financial assets and derivatives that are recognised at their fair value are susceptible to losses due to adverse changes in their prices. This is known as price risk.

Listed investments are recognised in the financial statements at quoted bid price. If the market for the investment is not considered to be active, then the Company establishes fair valuation techniques. This includes using recent arm's length transactions, reference to current fair value of other similar investments, discounted cash flow models and other valuation techniques that are commonly used by market participants.

The prices of fixed and floating rate income securities are predominantly impacted by currency, interest rate and credit risks.

The Company invests a proportion of its assets in equities and funds.

Other price risk is controlled by investing in accordance with the "prudent person principle" within the Investment guidelines which also establish maximum allocations to different asset classes.

Sensitivity to changes in other price risk

The sensitivity of the profit to the changes in the prices of equity and other variable yield securities and units in unit trusts is set out in the table below. The analysis is based on the information as at 31 December 2020.

(US\$m)		Impact on profit before tax	
		2020	2019
Increase in fair value	10%	39.1	39.8
	20%	78.1	79.7
	30%	117.2	119.5
Decrease in fair value	10%	(39.1)	(39.8)
	20%	(78.1)	(79.7)
	30%	(117.2)	(119.5)

The effect on shareholder's equity would be the same as the effect on profit.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.9 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Reinsurance credit risk

This is the risk that reinsurers fail to pay valid claims against a reinsurance contract held by the Company.

Credit risk from reinsurers is controlled through only transacting with reinsurers that meet certain minimum requirements and that have been approved by the Management Committee. The Group's Finance function reviews the list of approved reinsurers and their maximum exposure limits at least annually and following any significant changes in a reinsurer's position, including changes in credit rating. The Finance function also monitors exposure against the assigned reinsurer limits and may request collateral where any limits are breached.

Any reinsurance aged debts are monitored by the Management Committee. Any material aged debts are reported to the Risk Oversight Committee and the Board at least quarterly.

Premium debtor risk

This is the risk that the Group fails to pass on premiums or claims collected or paid on behalf of the Company.

The Company's most material premium debtors are Brit Syndicate 2987 and Brit UW Limited. As both policyholders are part of the Group, the premium debtor credit risk associated with these transactions is considered negligible. Additionally, Brit Re has the right to offset premium debt against claim amounts owed to Syndicate 2987.

Investment credit risk

Investment credit risk management process

The Management Committee chaired by the Finance and Operations Director is responsible for the management of investment credit risk. The Investment Risk Framework and Investment policy set out clear limits and controls around the level of investment credit risk. The Company has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Company's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through the monitoring of the aggregate investment risk limits.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

Investment credit risk profile

The summary of the investment credit risk exposures for the Company is set out in the tables below:

As at 31 December 2020	AAA	AA	A	BBB and below	Equities	P1	P2	Not rated	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	537.5	82.1	372.7	293.2	176.6	-	-	229.8	1,691.9
Derivatives	-	-	-	-	-	-	-	11.1	11.1
Cash at bank and in hand	-	-	-	-	-	64.2	0.7	-	64.9
Total	537.5	82.1	372.7	293.2	176.6	64.2	0.7	240.9	1,767.9

As at 31 December 2019	AAA	AA	A	BBB and below	Equities	P1	P2	Not rated	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	216.8	142.1	377.6	324.0	147.7	-	-	260.8	1,469.0
Derivatives	-	-	-	-	-	-	-	12.5	12.5
Cash at bank and in hand	-	-	4.3	-	-	4.2	0.4	-	8.9
Total	216.8	142.1	381.9	324.0	147.7	4.2	0.4	273.3	1,490.4

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.10 Liquidity risk

This is the risk the Company may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Company faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Company also limits the amount of investment in illiquid securities in line with the Liquidity policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections by reference to modelled Realistic Disaster Scenarios.

As at 31 December 2020

Assets	Statement of financial position US\$m	Fair values					Equities US\$m	Total US\$m
		Up to a year	1-3 years	3-5 years	Over 5 years			
		US\$m	US\$m	US\$m	US\$m	US\$m		
Financial investments	1,691.9	806.1	287.5	245.5	176.2	176.6	1,691.9	
Derivatives	11.1	10.8	-	0.2	0.1	-	11.1	
Debtors arising out of reinsurance operations	135.2	135.2	-	-	-	-	135.2	
Amounts due from group undertakings	20.5	20.5	-	-	-	-	20.5	
Reinsurers' share of claims	0.1	0.1	-	-	-	-	0.1	
Cash at bank and in hand	64.9	64.9	-	-	-	-	64.9	
	1,923.7	1,037.6	287.5	245.7	176.3	176.6	1,923.7	

Liabilities	Statement of financial position US\$m	Fair values				Total US\$m
		Up to a year	1-3 years	3-5 years	Over 5 years	
		US\$m	US\$m	US\$m	US\$m	
Claims outstanding	734.4	213.2	212.2	117.9	191.1	734.4
Derivatives	1.0	1.0	-	-	-	1.0
Other creditors	0.5	0.5	-	-	-	0.5
	735.9	214.7	212.2	117.9	191.1	735.9

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.10 Liquidity risk (continued)

As at 31 December 2019

Assets	Statement of financial position US\$m	Fair values					
		Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
		US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	1,469.0	794.0	246.9	162.0	118.4	147.7	1,469.0
Derivatives	12.5	12.4	-	-	0.1	-	12.5
Debtors arising out of reinsurance operations	127.0	127.0	-	-	-	-	127.0
Amounts due from group Undertakings	130.0	130.0	-	-	-	-	130.0
Cash at bank and in hand	8.9	8.9	-	-	-	-	8.9
	1,747.4	1,072.3	246.9	162.0	118.5	147.7	1,747.4

Liabilities	Statement of financial position US\$m	Undiscounted values				
		Up to a year	1-3 years	3-5 years	Over 5 years	Total
		US\$m	US\$m	US\$m	US\$m	US\$m
Claims outstanding	622.3	157.7	190.0	110.6	164.0	622.3
Derivatives	1.8	1.8	-	-	-	1.8
Other creditors	0.5	0.5	-	-	-	0.5
Provisions	0.2	0.2	-	-	-	0.2
	624.8	160.2	190.0	110.6	164.0	624.8

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4.11 Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of the Company.

Group risk is considered part of operational risk. The Company is dependent upon a number of functions provided by the Group through outsourcing agreements to support its operation. It is noted that other than the risks relating to the outsourcing arrangements, the Company and Group's interests are aligned and therefore the amount of residual Group risk is considered to be small.

Cyber security risk is also considered part of operational risk. Cyber security breaches, could, if they occurred, cause significant financial losses and/or damage to the reputation of the Company.

Operational risk management process

Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

An operational RMF is in place to ensure an appropriate standard approach is taken to managing operational risk across the group, including the Company. The key elements of this framework are:

- Allocation of responsibility for the identification and assessment of operational risk. Standard tools are used to facilitate these assessments.
- Definition of standard elements of sound operating controls that are expected to be in place to address all identified operational risks.
- A process that integrates with the Company's internal model to support the setting and monitoring of operational risk appetite and tolerances.
- Governance, reporting and escalation for operational risk.
- Infrastructure supporting the operational RMF; and
- Operational risk management training and awareness.

The Company has a number of controls in place that mitigate the operational risk relating to cyber security and outsourcing functions to the Group. One of these controls is performance monitoring against contractual Service Level Agreements (SLAs), which involves agreement with the Group at the start of the outsourcing contract. The SLAs are monitored to ensure the delivery of expected business benefits and identify and address issues of underperformance.

4.12 Commercial and strategic risks

There is a risk that the Company's strategy is not appropriate or is not implemented effectively which could result in material losses.

The Company is currently rated 'A' by AM Best. Any future downgrade to the Company's credit rating would adversely affect the Company's standing in the market.

The Company actively manages its commercial and strategic risk. Strategic decisions are subject to Management Committee, Risk Oversight Committee and Board review prior to implementation.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4.13 Other material risks

Covid-19

The Coronavirus (Covid-19) pandemic originated in Hubei Province in China and has since spread across the globe. Governments have taken various actions to contain the pandemic, including social distancing measures, travel restrictions and lockdowns resulting in the closure of certain businesses. This has given rise to insurance claims from various lines of business. The pandemic has also caused significant volatility in the financial markets. Although share prices recovered from significant falls following the news of the vaccine trials' success rates, interest rates remain at depressed levels given the economic outlook.

The Company has managed the risks posed by the pandemic in line with the RMF. Management has focused on ensuring staff wellbeing, launching a number of initiatives including working from home in line with Government guidance. The Company has been able to maintain a strong operational performance and continue to serve its customers despite the pandemic. The underwriting and investment portfolios are actively managed to reflect market developments, and actions have been taken in both areas in 2020 to ensure it is appropriately positioned for both the pandemic and the recessionary economic conditions.

Risk Management provided reports on the impact of the pandemic on the business throughout 2020 to the Board and Risk Committee. Covid-19 will continue to be an area of focus with the key risks going forward being further financial market volatility and uncertainty over the ultimate claims arising from Covid-19. The wellbeing of staff also remains a priority.

Climate Change

Climate change is a key example of a developing risk identified as part of the Company's emerging risk review, and the potential impact on the insurance industry is an area of focus for the market and regulators. The financial risks to insurers may include the potential for increases in the frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires.

The Company is managing the risks associated with climate change in line with the RMF and is responding to the latest regulatory guidance in this area.

4.14 Capital Management

Management capital is the capital required by the Company for current trading purposes based on our business strategy and regulatory requirements. Management capital requirements are in excess of capital requirements under the Bermuda regulatory regime, which became effective on 1 January 2013.

The capital policy is set by the Board and is based on the output of the internal model which reflects the risk profile of the business. The policy requires capital to be held well in excess of regulatory minimum requirements and underpins the Company's financial strength. The Company proactively responds to developments in the financial environment to ensure its capital strength is maintained whilst optimising risk adjusted returns.

The Company seeks to hold capital resources at an appropriate level for the business to provide management with:

- The flexibility to absorb major losses while still being in a position to take advantage of subsequent market dislocations;
- The ability to pursue opportunity-driven growth in our core business; and
- The support to provide continuity in regular dividend payments to shareholders.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. Risk management policies (continued)

4.14 Capital Management (continued)

The Company is subject to the solvency and capital adequacy requirements of the Bermuda Monetary Authority. All requirements have been complied with during the year by the Company.

Under the Bermuda Insurance Act 1978, the Company is required to maintain at all times a minimum level of statutory capital and surplus. The Company's available capital consists of ordinary share capital and retained earnings, which amounted to US\$1,086.6m as at 31 December 2020 (2019: US\$1,036.0m). This represented a surplus of US\$427.4m (2019: US\$426.8m) over regulatory requirements, being the enhanced capital requirement. The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities and this has been met.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

5. Net Investment return

Year ended 31 December 2020

	Investment income US\$m	Net realised (losses)/gains US\$m	Net unrealised (losses)/gains US\$m	Total investment return US\$m
Equity securities	3.1	(2.2)	(16.0)	(15.1)
Debt securities	29.0	4.9	31.2	65.1
Mortgages and Loans	0.2	-	-	0.2
Specialised investment funds	-	1.6	(29.8)	(28.2)
Derivatives	2.3	(4.1)	(3.2)	(5.0)
Cash and cash equivalents	0.6	-	-	0.6
Total investment return before expenses	35.2	0.2	(17.8)	17.6
Investment management expenses	(5.0)	-	-	(5.0)
Net investment return	30.2	0.2	(17.8)	12.6

Year ended 31 December 2019

	Investment income US\$m	Net realised losses US\$m	Net unrealised gains/(losses) US\$m	Total investment return US\$m
Equity securities	2.1	(7.9)	42.5	36.7
Debt securities	30.8	(6.9)	15.6	39.5
Specialised investment funds	-	(2.3)	(2.1)	(4.4)
Derivatives	-	(10.8)	20.6	9.8
Cash and cash equivalents	1.0	-	-	1.0
Total investment return before expenses	33.9	(27.9)	76.6	82.6
Investment management expenses	(4.2)	-	-	(4.2)
Net investment return	29.7	(27.9)	76.6	78.4

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

6. Provision for unearned premium

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2020	102.1	(0.3)	101.8
Premiums written in the year	308.7	(0.2)	308.5
Premiums earned in the year	(300.2)	0.4	(299.8)
Change in provision for unearned premium	8.5	0.2	8.7
Effect of movement in exchange rates	0.8	-	0.8
Balance at 31 December 2020	111.4	(0.1)	111.3

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2019	96.8	-	96.8
Premiums written in the year	315.5	(4.8)	310.7
Premiums earned in the year	(310.8)	4.5	(306.3)
Change in provision for unearned premium	4.7	(0.3)	4.4
Effect of movement in exchange rates	0.6	-	0.6
Balance at 31 December 2019	102.1	(0.3)	101.8

All net premiums for the current year and the prior year relate to inwards reinsurance business.

7. Claims outstanding

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2020	622.3	-	622.3
Claims incurred in current underwriting year	161.1	(0.1)	161.0
Claims incurred in prior underwriting years	128.4	-	128.4
Claims paid in the year	(185.8)	-	(185.8)
Change in provisions for claims	103.7	(0.1)	103.6
Effect of movement in exchange rates	8.4	-	8.4
Balance at 31 December 2020	734.4	(0.1)	734.3

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

7. Claims outstanding (continued)

	Gross	Reinsurers'	Net
	US\$m	share	US\$m
		US\$m	
Balance at 1 January 2019	602.1	-	602.1
Claims incurred in current underwriting year	93.4	-	93.4
Claims incurred in prior underwriting years	90.9	-	90.9
Claims paid in the year	(175.9)	-	(175.9)
Change in provisions for claims	8.4	-	8.4
Effect of movement in exchange rates	11.7	-	11.7
Balance at 31 December 2019	622.3	-	622.3

8. Insurance and reinsurance contracts

Assumptions and changes in assumptions

Process used to decide on assumptions required

The risks associated with these insurance liabilities and in particular with casualty insurance are complex and subject to a number of variables that complicate quantitative analysis.

The Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on these historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.

Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business or for underwriting years at early stages of development where the outcome is still highly uncertain.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique is used in situations in which developed claims experience are not available for the projection (recent underwriting year or new classes of business).

The choice of selected results for each year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for the individual underwriting year or groups of underwriting years within the same class of business.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

8. Insurance and reinsurance contracts (continued)

Assumptions and changes in assumptions (continued)

Process used to decide on assumptions required (continued)

Standard statistical techniques may not be solely appropriate for assessing ultimate claims for a number of classes of business (e.g. casualty treaty) and particular events (e.g. natural catastrophes), therefore alternative methodologies may be employed to add additional rigour to the process. Examples include reviewing potential exposure on a policy by policy basis and taking account of market intelligence to determine the Company's share of the loss.

In addition to the estimation of claims reserves, certain estimates are produced for unearned premiums. For open market business, earned premium is calculated at policy level. However, premium derived from delegated underwriting authorities is calculated by applying the 1/144ths method to estimated premiums applied to the master policy. This assumes that attachments to master policies arise evenly throughout the period of that master policy.

Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are earned on the same basis as the inwards business being protected.

Changes in assumptions

The Company did not change its estimation techniques for the insurance contracts disclosed in this Note during the year.

Claims development tables

The following table shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date. The amounts are reported on an earned basis, which leads to a large increase in incurred claims in the second year, due to the premium earning pattern.

The claims have been adjusted to make them comparable on a year-by-year basis. Claims in currencies other than US\$ have been retranslated at 31 December 2020 exchange rates.

Estimate of cumulative net incurred claims:

US\$m Underwriting year	2011 & prior	2012	2013	2014	2015	2016	2017	2018	2019	2020
At end of underwriting year		76.9	76.9	78.5	78.5	84.1	134.3	110.9	94.8	162.2
One year later		143.3	68.3	178.8	163.0	187.1	225.9	208.0	199.3	
Two years later		150.7	151.0	180.1	172.6	198.3	235.9	230.5		
Three years later		142.5	148.4	187.7	168.3	200.0	245.5			
Four years later		138.7	152.8	178.2	162.0	202.5				
Five years later		136.6	144.9	173.1	162.0					
Six year later		135.7	142.2	172.6						
Seven years later		144.3	138.4							
Eight years later		141.5								
Current estimate of cumulative claims incurred		141.5	138.4	172.6	162.0	202.5	245.5	230.5	199.3	162.2
Cumulative payments to date		126.8	121.6	137.2	109.6	139.4	153.2	116.3	49.4	10.3
Net outstanding claims provision at 31 Dec 2020	43.5	14.8	16.8	35.5	52.4	63.1	92.3	114.2	149.9	151.8

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

8. Insurance and reinsurance contracts (continued)

Assumptions and changes in assumptions (continued)

Claims development tables (continued)

The estimate of cumulative gross incurred claims would differ to the table above only in the 2020 underwriting year at the end of that underwriting year, which would equal US\$ 162.3m. This would result in a Gross outstanding claim provision as at 31 December 2020 for the 2020 underwriting year of US\$ 151.9m.

During 2012, the Company entered into a loss portfolio reinsurance contract agreement with the RiverStone Group whereby the Company reinsured certain lines of business underwritten by Brit Insurance Limited prior to its sale by the Brit Group to the RiverStone Group. During 2014, the loss portfolio reinsurance contract was commuted. Incurred claims relating to this contract have been excluded from the claims development table in order to make the claims comparable on a year by year basis.

9. Net operating expenses

	2020 US\$m	2019 US\$m
Acquisition costs	15.1	19.1
Change in deferred acquisition costs	(0.3)	(0.1)
Reinsurance commissions and profit participation	1.0	1.5
Administrative expenses	4.3	4.2
Foreign exchange gains	2.4	7.1
	22.5	31.8

Administrative expenses include:

	2020 US\$m	2019 US\$m
Audit of the Company annual accounts	0.1	0.1

10. Staff costs

Staff Costs comprise:

	2020 US\$m	2019 US\$m
Wages and salaries	0.8	0.7
Pension contributions	0.1	0.1
	0.9	0.8

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

10. Staff costs (continued)

Charges included in wages and salaries relating to share-based payment schemes recognised in the income statement were below US\$0.1m in 2020 (2019: below US\$0.1m). Pension contributions are in respect of a defined contribution pension scheme.

	2020 No.	2019 No.
Headcount of staff were as follows:		
Management	5	5
Administration	2	1
Average Headcount	7	6

	2020 US\$m	2019 US\$m
Staff costs include Directors' remuneration as follows:		
Aggregate remuneration	0.6	0.5

These amounts represent remuneration based on an apportionment of the Directors' time.

The Directors' remuneration disclosed above includes the following amounts paid to the highest paid Director:

	2020 US\$m	2019 US\$m
Aggregate remuneration	0.4	0.3

11. Tax on ordinary activities

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 31, 2035. At present time no such taxes are levied in Bermuda.

	2020 US\$m	2019 US\$m
Tax charge in the income statement:		
Withholding tax (released)/ incurred	(0.1)	0.1
	(0.1)	0.1

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

11. Tax on ordinary activities (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than the exemption from tax in Bermuda.

The differences are explained below:

	2020 US\$m	2019 US\$m
Profit on ordinary activities before tax	0.5	168.6
Effects of:		
Withholding tax (released)/ incurred	(0.1)	0.1
Total tax charge on profit on ordinary activities	(0.1)	0.1

12. Financial investments

	Market value 2020 US\$m	Market value 2019 US\$m	Cost 2020 US\$m	Cost 2019 US\$m
Shares and other variable yield securities and units in unit trusts	348.0	353.1	383.1	348.2
Debt securities and other fixed income securities	1,343.9	1,115.9	1,294.3	1,095.9
	1,691.9	1,469.0	1,677.4	1,444.1

All financial investments have been designated as held at fair value through profit or loss.

The Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy comprises the following levels:

- (a) Level one - quoted prices (unadjusted) in active markets for identical assets;
- (b) Level two - inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (c) Level three - inputs for the assets that are not based on observable market data (unobservable inputs).

Assets are categorised as level one where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

12. Financial investments (continued)

Fair values for level two and level three assets include:

- Values provided at the request of the Company by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary 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 the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

Valuation techniques

Level one

Inputs represent unadjusted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume on an arm's length basis). The main asset classes in the level one category are listed equities, government bonds and treasury bills issued in Canada and in the US.

Level two

Inputs include directly or indirectly observable inputs (other than Level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs. The main asset classes in the level two category are US and non-US government agency securities, US and non-US corporate debt securities, loan instruments and certain specialised investment funds.

US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non US government agency securities are priced with Over The Counter (OTC) quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

12. Financial investments (continued)

Valuation techniques (continued)

Level three

Level three securities contain investments in private equity, and limited partnerships/debt where the fund's underlying investments are not traded or quoted in an active market. Pricing models factor in interest rates, bond or credit swap spreads and volatility.

Level three specialised investment funds include securities that are valued using techniques appropriate to each specific investment. The valuation techniques include fair value by reference to net asset values (NAVs) adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties. In some instances, certain investment funds are classified as Level three because they may require at least three months' notice to liquidate.

Level three equities include investments in limited partnerships where the fund's underlying investments are not traded/quoted in an active market. In some instances, limited partnerships are classified as level three because they may require at least three months of notice to liquidate.

Level three mortgages and loans include securities which are not traded/quoted in an active market. The valuation techniques include fair value by reference to third party agency valuations which are typically lagged. In some instances, mortgages and loans are classified as level three because they may require extended periods to liquidate.

The following tables show the disclosures of fair values in accordance with the fair value hierarchy by asset class.

As at 31 December 2020	Level 1 2020 US\$m	Level 2 2020 US\$m	Level 3 2020 US\$m	Total 2020 US\$m
Equities	133.6	-	43.0	176.6
Debt securities	521.9	783.6	15.4	1,320.9
Mortgages and Loans	-	-	23.0	23.0
Specialised investment funds	-	166.3	5.1	171.4
	655.5	949.9	86.5	1,691.9

As at 31 December 2019	Level 1 2019 US\$m	Level 2 2019 US\$m	Level 3 2019 US\$m	Total 2019 US\$m
Equities	100.2	-	47.5	147.7
Debt securities	293.0	807.7	15.2	1,115.9
Specialised investment funds	-	199.8	5.6	205.4
	393.2	1,007.5	68.3	1,469.0

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

12. Financial investments (continued)

Transfers between fair value levels

Fair values are classified as level one when the financial instrument or derivative is actively traded and a quoted price is available. In accordance with the Company's policy if an instrument classified as level one subsequently ceases to be actively traded, it is immediately transferred out of level one. In such cases, instruments are classified into level two, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as level three. All fair value measurements above are recurring as they are required to be measured and recognised at the end of each reporting period.

Transfers from level one to level three

There were no equity transfers from level one to level three during 2020 (2019: US\$nil).

Transfers from level two to level one

There were no equity transfers from level two to level one during 2020 (2019: US\$nil).

Transfers from level three to level two

There were no equity transfers from level three to level two during 2020 (2019: US\$nil).

There were no transfers between any fair value levels for equity, debt securities, mortgages and loans and specialised investment funds during 2020.

13. Derivatives

	2020 US\$m	2019 US\$m
Derivative assets	11.1	12.5
Derivative liabilities	(1.0)	(1.8)
	10.1	10.7

As at 31 December 2020	Level 1	Level 2	Level 3	Total
	US\$m	US\$m	US\$m	US\$m
Derivative contract assets	-	10.8	0.3	11.1
Derivative contract liabilities	-	(1.0)	-	(1.0)
	-	9.7	0.3	10.1

As at 31 December 2019	Level 1	Level 2	Level 3	Total
	US\$m	US\$m	US\$m	US\$m
Derivative contract assets	-	12.4	0.1	12.5
Derivative contract liabilities	-	(1.8)	-	(1.8)
	-	10.6	0.1	10.7

There were no transfers between any fair value levels for derivatives during 2020.

Derivatives are used to manage the foreign exchange and interest rate exposure for the Company. During the year the instruments used were currency forwards, currency put options and interest rate swaps.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

14. Amounts due from Group undertakings

	2020 US\$m	2019 US\$m
Deposits with Brit Insurance Holdings Limited	20.4	130.0
Other amounts due from Group Undertakings	0.1	-
	20.5	130.0

The balance with Brit Insurance Holdings Limited relates to cash deposited in the Group where interest is earned at above market rates.

15. Other debtors

	2020 US\$m	2019 US\$m
Corporation tax	0.1	3.8
Other debtors	1.2	0.1
	1.3	3.9

The corporation tax in 2019 was in respect of recoverable amounts due from the Gibraltar tax authorities, now fully recovered. US\$0.1m recoverable in 2020 is in respect of withholding tax.

16. Called up share capital

2020 Authorised share capital	USD \$'000
<u>Authorised Core Shares</u> 1,000,000,000 ordinary shares of \$1 each	1,000,000

2019 Authorised share capital	USD \$'000
<u>Authorised Core Shares</u> 1,000,000,000 ordinary shares of \$1 each	1,000,000

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

16. Called up share capital (continued)

During 2020, the Company issued 50m of US\$1 ordinary shares, fully paid up in the period (2019: nil) such that the issued share capital of the Company at 31 December 2020 was US\$659,244,210 (2019: US\$ 609,244,210).

2020 Allotted, called up and fully paid	USD \$	Called up US\$m
659,244,210 ordinary shares of \$1 each	659,244,210	659.2
	659,244,210	659.2

2019 Allotted, called up and fully paid	USD \$	Called up US\$m
609,244,210 ordinary shares of \$1 each	609,244,210	609.2
	609,244,210	609.2

17. Deferred acquisition costs

	2020 US\$m	2019 US\$m
At 1 January	6.5	6.3
Costs deferred during the year	15.1	19.1
Amortisation charge for the year	(15.3)	(18.4)
Foreign exchange movements	0.5	(0.5)
At 31 December	6.8	6.5

18. Other creditors

	2020 US\$m	2019 US\$m
Other creditors	0.5	0.5
	0.5	0.5

19. Other provisions

Since the Company relocated to Bermuda, the Brit Group has been considering the future of the Company's leased office property. As at the end of 2020, it was determined that the office was not expected to be sub-let or otherwise utilised during the remaining lease period and, as such, Brit Re has paid a break option penalty calculated by Savills included within administrative expenses of £0.05m to end the lease on the Gibraltar office. A provision for dilapidations of £0.02m was raised at the year end.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

20. Charges over the assets of the Company

The Company entered into a Lloyd's Deposit Trust Deed (third party deposit) on 12 October 2016 (replacing an earlier covenant and charge arrangement) pursuant to which the Company provides funds at Lloyd's (FAL) on behalf of Brit UW Limited, a Group company. The Company has agreed to pay an amount not exceeding US\$650.0m to, or at the direction of, The Society of Lloyd's (the Society) in respect of Brit UW Limited's FAL obligations. As security for the performance of its obligations, the Company has created a charge over its assets in favour of the Society.

The Company has granted Brit Syndicates Limited, as managing agent of Lloyd's Syndicate 2987, a security interest over certain funds and securities held in the collateral accounts established under a custody agreement with The Bank of New York Mellon. This security was granted to secure the Company's obligations under various reinsurance agreements entered into between Brit Syndicates Limited, as managing agent of Lloyd's Syndicate 2987 (as cedant) and the Company (as reinsurer). As at 31 December 2020, funds held in the collateral accounts were in the sum of US\$852.7m (2019: US\$711.9m).

21. Share-based payments

The Brit group operates two schemes, including (i) a long-term incentive plan (LTIP) (treated as equity-settled) with awards granted under a Fairfax Financial Holdings Limited LTIP scheme, and (ii) an employee share ownership plan (ESOP) (treated as equity-settled) denominated in Fairfax Financial Holdings Limited shares that are made available to the employees of the Company. These schemes are deemed to fall within the scope of Section 26 'Share-based payments' of Financial Reporting Standard FRS102.

Fairfax Long Term incentive Plan (LTIP) schemes have no performance conditions and a vesting period of 3 to 10 years. The Fairfax ESOP has no performance conditions and no vesting period.

Charges relating to employees of the Company recognised in the income statement under FRS 102 for the share-based payment arrangements were below US\$0.1m in 2020 (2019: below US\$0.1m).

For more information refer to the Brit Limited consolidated accounts, which can be obtained by writing to The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB or by visiting www.britinsurance.com.

22. Dividends

No interim dividends were paid in the year (2019: US\$40.0m). The Directors do not recommend the payment of a final dividend.

23. Disclosure exemptions

The Company has taken advantage of the disclosure exemptions provided by paragraph 1.12 of FRS 102. Accordingly, these financial statements do not include the following:

- A statement of cash flows
- A reconciliation of the number of shares outstanding at the beginning and end of the year
- Specific information relating to share-based payment included within equivalent disclosures for the Group
- Disclosure of key management personnel compensation

The Company has been consolidated into the Group financial statements of Brit Limited. The Brit Limited consolidated financial statements and accompanying notes provide further detail in respect of these areas, copies of whose accounts can be obtained from The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB or by visiting www.britinsurance.com.

Brit Reinsurance (Bermuda) Limited

NOTES TO THE FINANCIAL STATEMENTS

24. Related party transactions

Other members of the Group

The Company has taken advantage of the exemption afforded by FRS 102, paragraph 33.1A, in not disclosing transactions with other entities wholly owned within the Brit Limited Group.

Transactions with related parties that require disclosure in accordance with FRS 102 were as follows:

a) Conyers Corporate Services (Bermuda) Limited (Conyers)

The Company incurred professional fees of US\$24,931 (2019: US\$20,130) for company secretarial services provided by Conyers.

Mr Garrod, a Director of Conyers Dill & Pearman Limited was appointed to the Brit Re Board on 7 December 2017 and resigned 28 October 2019.

b) Fairfax Financial Holdings Limited

Hamblin Watsa Investment Counsel Limited (HWIC), a subsidiary of Fairfax, is an investment manager to the Company. The Company incurred and paid investment management fees to HWIC of US\$4.2m in 2020 (2019: US\$3.5m).

The Company has written historic excess of loss reinsurance with Riverstone Insurance Limited (Riverstone), an affiliate of Fairfax. The amount due to Riverstone as at 31 December 2020 was US\$0.6m (2019: US\$1.2m).

c) Advent Underwriting Limited

From 31 January 2019, Brit Re entered into a quota share treaty reinsurance contract incepting on 1 April 2019 with Advent Underwriting Limited (Lloyd's syndicate 780).

The agreement covered Advent's Property and Direct Facultative, Property Binding Authorities and Terrorism reinsurance for a premium of US\$3.2m in 2020 (2019 \$24.1m). This was an additional premium received from Advent, reflecting additional premium on the binders covered under the contract.

Advent Underwriting Limited was part of the European run-off group that was a subsidiary of Fairfax until its contribution to Riverstone (Barbados) Ltd., a newly created joint venture entity, on 31 March 2020.

25. Ultimate controlling party

The immediate parent undertaking at the year-end is Brit Insurance Holdings Limited, a company registered in England and Wales. The ultimate parent undertaking at the year-end is Fairfax Financial Holdings Limited (Fairfax), a company which is federally incorporated and domiciled in Ontario, Canada. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or by visiting www.fairfax.ca.

26. Events after the reporting date

On 15 January 2021, the UK Supreme Court upheld the judgement on the Financial Conduct Authority (FCA) business interruption (BI) insurance test case. The FCA brought the case forward in May 2020 to seek legal clarity on whether insurers were obligated to pay out on BI claims related to the COVID-19 pandemic. Brit is committed to paying all valid claims and has maintained sufficient reserves to fulfil its contractual obligations.