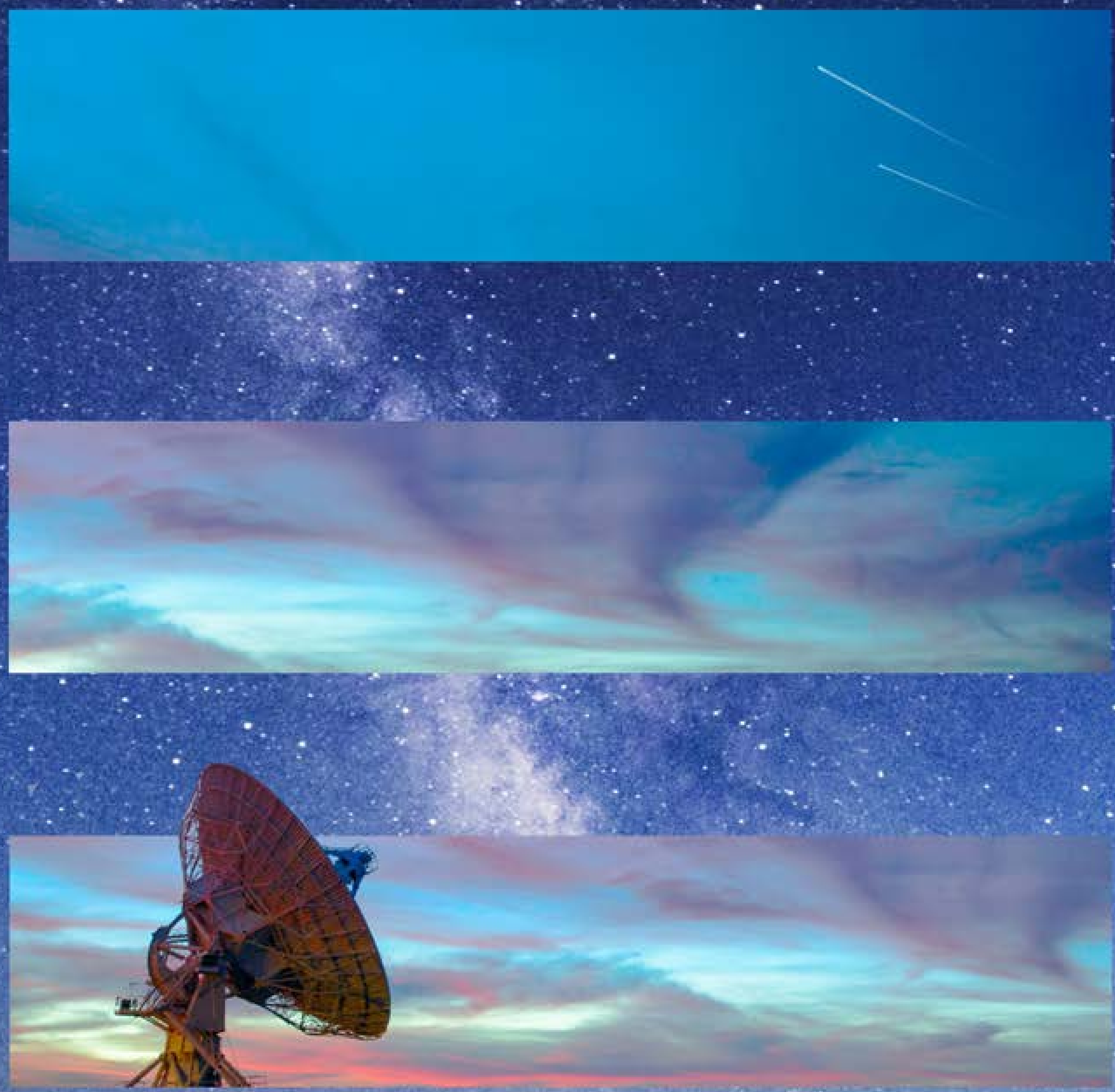
Brit Limited

Annual Report 2020



BRIT

writing the future

writing the future

If the future was predictable, there would be no risk and if change was linear, there'd be no need for experts. There'd be no need for the insurance industry.

But the truth is, the world we live in is unpredictable. It's volatile, uncertain, and subject to change.

At Brit, we believe that the uncertainty of the future should never stand in the way of progress.

That's why we exist. To help people and businesses face the future and thrive.

Every day, we channel our entrepreneurial expertise to write the most opaque risk that the future holds, embracing the change faced by our clients by delivering a service that's open, honest, and fair. One that invests in the new products and claims delivery they need in a world of complex risk.

We are dedicated to innovation, developing client solutions, efficient capital vehicles and a technology-led service that not only lead the market, but drive the future.

Investing in distribution so that we can deliver market-leading analytics to further deepen our relationships with key partners, and investing in our people, so we can amplify the integrity, agility and innovation that define our shared future.

So if you're our partner, broker or an employee, we make you this promise: we won't just react to change, we'll create it for the better.

We won't just write risk, we'll write the future.

Let's do it together.

2020 – a year like no other

- We have supported our customers throughout 2020, providing valuable cover as they face difficult and unexpected challenges. Estimated claims in 2020 relating to the COVID-19 pandemic of US$271m represents our largest ever Major Loss event, illustrating the true value we bring to our clients across the world.
- Our shareholder, Fairfax, has supported Brit through a difficult period. We are grateful for the strong support shown and continued faith in our business.
- While 2020 was dominated by COVID-19 and other major losses, there were positives: we saw strong underlying performance across a number of classes, strong reserve releases and credible investment return. We have also continued to successfully implement our strategy.
- Our overall combined ratio (CoR) was 112.6%. Excluding COVID related claims, our CoR was 96.7%.
- The underlying performance of most classes has been strong. We delivered a full year attritional ratio of 52.6%, a 2.4pps improvement over 2019, and is now reaching levels last seen a decade ago.
- We have maintained our record of reserve releases, which amounted to US$61.5m in the year, a 3.6pps reduction in the CoR.
- Our investment return was US$45.5m, a credible performance given the market turbulence in the year.
- Brit's capital position remains strong. At 31 December 2020 there was a surplus of US$341.0m or 22.1%.
- Market conditions continue to give cause for optimism. We achieved risk-adjusted rate increases of 10.6%, bringing the increase since 1 January 2018 to 20.2%.
- We have focussed on our customers and staff in these challenging times. It has been 'business as usual' at Brit, and we have received excellent feedback from our clients and brokers.
- We have continued to focus on our 'Leadership, Innovation, Distribution' strategy. This has included:
  - Launching Ki, the first fully digital and algorithmically-driven Lloyd's of London syndicate.
  - Launching a direct pay claims facility in collaboration with Visa and Vitesse.
  - Sponsoring a US$300m catastrophe bond via Sussex Capital UK PCC Limited.

Contents

Strategic Report

The Strategic Report contains information about the Group, how we make money and how we run the business. It gives an insight into our markets, approach to governance, sustainability and risk management. It provides context for our financial statements, sets out our key performance indicators (KPIs) and analyses our financial performance. It also sets out how we engage with our people and other stakeholders and includes our Section 172(1) Statement.

Governance

This report sets out other information of interest to our stakeholders. It includes our Directors' responsibility statement and our Directors' statement on going concern. It also explains our governance framework and contains our Modern Slavery and Human Trafficking Statement.

Financial statements

This section presents the financial position, performance and development in accordance with generally accepted accounting practice for both the Group and the Company. It also contains the Auditor's Report.

Additional information

This section explains how we calculate our KPIs with reference to data contained within the financial statements. We also summarise other information, relating to the Company, useful to stakeholders.

Glossary

In this section, we include definitions of the terms used in this Annual Report, focusing on terms specific to the insurance industry and to Brit.

strategic report

This Strategic Report contains information about our business and provides an insight into how we operate and our approach to sustainability and risk management. It provides context for our Financial Statements, sets out our key performance indicators (KPIs) and analyses our financial performance.

This Strategic Report was approved by the Board on 16 February 2021.

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

officer statements

'At a time when the global pandemic is still ravaging communities, we spare a thought for our colleagues, brokers and clients who have had to deal with the ultimate tragedy of losing a loved one through COVID-19. It is clearly a year that many will wish to forget, albeit ironically it will probably be one of the most memorable of the 21st century. The challenges brought about by COVID-19 have been on a global scale not seen since the second world war. The human cost, the economic impact and the toll on mental welfare has been at a level no one could have foreseen as we began the year.

The excellence of any group of people, a team or a company, is seldom measured during the best of times, it is exhibited during the worst of times. We must never forget that the primary aim of business is to service its customers and reward its shareholders, and with significant COVID underwriting losses, we must acknowledge that we have not achieved the latter. That said, I am so very proud of the way in which everyone in Brit has responded to the challenge that has impacted every aspect of life, and not only managed to service our clients, but to excel in doing so.

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 our 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 year. 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 third-party adjusters to ensure claims continue to be handled promptly and to our usual high standards. It was pleasing that in 2020, Marsh and Lockton rated Brit the number one carrier for service provided in the London Market, while AJG ranked us third in the London Market and Aon ranked us third out of 34 carriers.

The crisis has impacted many of our clients. Our products are designed to support businesses and individuals in such difficult times and we have focussed on responding to claims as they have been notified. We have stood tall with respect to valid COVID-19 claims and the financial impact on Brit has been significant, with claims of US$270.7m related to COVID-19 being reported within Major Losses in the period. COVID-19 has predominantly impacted our Contingency (Event Cancellation) and Casualty Treaty books. These losses have driven an increase of 15.9 percentage points (pps) in our combined ratio, bringing the overall combined ratio to 112.6%.

2020 was also a very active year for catastrophe events, being the fifth-costliest on record. The net impact to Brit of these events, before reinstatements, was US$132.5m, or 7.8pps on the combined ratio (2019: US$58.4m/3.6pps).

The pandemic has also severely impacted investment markets. The first quarter of 2020 saw markets suffer their worst period since the 2008 financial crisis, as investors priced in the short-term impact of the shutdown and potential longer term impact of a global recession, while the remainder of the year witnessed a recovery. Brit's investment return for the year was a positive US$45.5m, driven by the performance of our fixed income portfolio. Our overall operating result before FX movements was a loss of US$233.7m and our result after tax was a loss of US$232.0m.

Despite the backdrop of COVID-19, there were a number of positives in the period. We achieved risk adjusted rate increases of 10.6%, with almost all classes contributing to the increase. This gives a total overall increase since 1 January 2018 of 20.2%. In this positive rate environment, we continued to grow our written premium to US$2,424.4m, an increase of 5.6% at constant exchange rates.

During the period we delivered an attritional claims ratio of 52.6%, an improvement of 2.4pps, reflecting underwriting discipline, rigorous risk selection, and rate increases. We have also maintained our long-standing track record of prior year reserve releases, improving the combined ratio by 3.6pps (US$61.5m).

Brit's brand purpose is 'writing the future'. In May, we were proud to announce plans to launch Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's of London syndicate, in collaboration with Google Cloud. Ki Syndicate 1618, with backing from Blackstone and Fairfax, commenced underwriting for the 2021 year of account in November 2020. We believe Ki will redefine the commercial insurance market and places Brit at the forefront of innovation in our sector.

We strive to ensure equal opportunity is part of how we conduct ourselves as a business and as a team. The simple message is that discrimination in all its forms will not be tolerated at Brit. We continue to work hard on inclusion and are committed to proactively addressing its challenges. We have formed an Inclusion and Diversity Committee and launched the Brit People Forum, so we can listen to and learn from the personal stories of the widest spectrum of the Brit community and come together to make inclusion and diversity 'business as usual' for Brit.

During 2020, we have received continued support from our owner, Fairfax. This support has enabled us to continue to focus on our strategy and to position ourselves well for the opportunities as they arise.

In September, we appointed Mark Allan as CEO of Ki, and as such he will be stepping down from his role as Group CFO, once his successor has started. Mark has made a significant contribution to Brit over the last ten years and will remain both on the Brit Executive and on the Brit Ltd and Brit Syndicates Ltd Boards as an Executive Director. I am delighted that Gavin Wilkinson will be joining in May 2021 as Group CFO, subject to regulatory approval.

Looking ahead to 2021 and beyond, significant uncertainty still surrounds COVID-19 and the timeframes over which vaccination programmes will allow lockdowns to be eased. We also face the consequences of the economic support measures taken by governments driving yields down to record lows and the likely impact on the economy, with recessionary risks heightened.

However, against this challenging backdrop there are a number of indicators to give us cause for optimism, including rate increases, the withdrawal of capacity in the market from certain classes and our improving attritional claims ratio. In this environment, our clear strategy of embracing data driven underwriting discipline, rigorous risk selection and planned targeted growth for 2021, coupled with innovative capital management solutions and continued investment in distribution, positions us well to respond to the opportunities and challenges ahead.'

Matthew Wilson Group Chief Executive Officer

officer statements

'For Brit and the wider insurance market, 2020 has proved to be very challenging, with results heavily impacted by the COVID-19 pandemic and its impact on insurance, investment and currency markets, and other major loss events. Brit's operating result before FX movements for 2020 was a loss of US$233.7m (2019: profit of US$183.0m), while the post-tax result was a loss of US$232.0m (2019: profit of US$179.9m).

Our underwriting loss of US$215.0m and combined ratio of 112.6% included major losses of US$403.2m (or 23.7pps of the combined ratio), resulting from COVID-19 related claims (US$270.7m), Hurricane Laura (US$65.4m), Hurricane Sally (US$27.1m), Hurricane Zeta (US$15.5m), the Nashville Tornadoes (US$13.7m) and US Civil Unrest (US$11.7m). However, we were pleased with the attritional ratio of 52.6%, an improvement of 2.4pps, and to continue our long-standing track record of prior year reserve releases (US$61.5m), benefiting our combined ratio by 3.6pps.

In the first quarter of 2020 investment markets sold off due to fears around the financial impact of the coronavirus pandemic, before staging a partial recovery over the remainder of the year. Our investment return for the year, net of fees, was US$45.5m or 1.0%, driven by gains in our fixed income portfolio of US$141.3m, partly offset by losses in our equity (US$42.5m) and fund (US$32.8m) portfolios.

Preserving a strong financial position is critical to the long-term success of an insurance business. Our statement of financial position remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. During the period, our management capital requirement increased from US$1,227.7m to US$1,540.3m, primarily reflecting the dramatic fall in interest rates in response to COVID-19, but also reflecting our investments alongside partners in Ki, Syndicate 2988 and Sussex. We raised capital from our parent, Fairfax, amounting to US$524.0m during the period to ensure we trade into 2021 with a strong capital position. At the end of the period our adjusted net tangible assets totalled US$1,436.8m (31 December 2019: US$1,150.4m), after payment of a US$20.6m dividend, and our capital surplus was US$341.0m (31 December 2019: US$348.9m).

We are very excited about the prospects for our new digital business, Ki, that brings together the best of Lloyd's underwriting with the latest technology and data science. This cutting-edge business is a first for the market and has a fundamentally different operating model, designed to dramatically improve the broker experience for follow capacity in Lloyd's. We are delighted to have worked with world-class partners in Google Cloud and University College London on the launch.

Ki has raised US$500m of committed capital from two backers, funds managed by Blackstone Tactical Opportunities and Fairfax. It has also onboarded its first trading partners, a leading group of Lloyd's brokers, giving their clients access to our valuable capacity and sustainable business model. In October 2020, Ki Syndicate 1618 achieved 'permission to underwrite' from Lloyd's, and in November it bound its first risk, with the line having been generated by Ki's proprietary algorithm, a first in the Lloyd's market.

In December, we sponsored our first 144A catastrophe bond issuance, via Sussex Capital UK PCC Limited. The bond provides US$300m of multi-year named storm and earthquake protection for a risk period of four years to 31 December 2024. Structured on an annual aggregate state-weighted basis, the proceeds from the bond will be used to collateralize a reinsurance agreement with Brit Syndicates Limited, acting on behalf of Syndicate 2987, and Sussex Capital UK PCC Limited. This is the first time a protected cell of a UK domiciled multi-arrangement risk transformation vehicle has issued a 144A catastrophe bond and provides Brit with valuable catastrophe protection over the next four years to complement our traditional reinsurance programme.

While we have seen some positive market developments in 2020, the year has been defined by COVID-19. In 2021, the world faces ongoing uncertainty and challenge arising from the pandemic. However, our strategy, discipline and plans for 2021 position us well against the significant macro-economic challenges that lie ahead.'

Mark Allan Group Chief Financial Officer

Brit at a glance

Overview

We are a market-leading global specialty (re)insurer and the largest business that trades primarily on the Lloyd's of London platform, the world's leading specialist commercial insurance market. We provide highly specialised insurance products to support our clients across a broad range of complex risks, with a strong focus on property, energy and casualty business.

We care deeply about our clients' needs, ensuring that we not only surround them with – and invest in – the best talent in the industry, but also combine the depth of our experience with the latest technology to deliver a relentless innovation agenda. Acting in open, honest partnership, our clients can be sure that with Brit by their side the future isn't something to be feared, it's something to be seized.

We operate globally via a combination of our own international distribution network that benefits from Lloyd's global licences and our broker partners. Our underwriting capabilities are underpinned by a strong financial position and our commitment to deliver superior returns to our shareholders.

A full history of Brit can be found at www.britinsurance.com.

The Fairfax Group

Since June 2015, Brit has been a member of the Fairfax Financial Holdings Limited group (Fairfax), a Canadian company whose shares are listed on the Toronto Stock Exchange (www.fairfax.ca). At the start of 2020, Brit was 89.3% owned by FFHL Group Limited (FFHL), a Fairfax company, while Brit's remaining shares were owned by the Ontario Municipal Employees Retirement System (OMERS), the pension plan manager for government employees in the Canadian province of Ontario. On 28 August 2020, FFHL purchased all 48,000,000 Class A shares from OMERS, thereby increasing Fairfax's ownership of the Brit Group to 100.0%.

We believe that Fairfax is an excellent partner for Brit, enabling us to enhance our global product offering. It provides us with expanded underwriting opportunities and distribution channels and supports our ability to be a leading global specialty (re)insurer.

Underwriting

Brit has a long and successful track record of leading an extensive range of insurance and reinsurance programmes, based on rigorous risk selection and a disciplined approach to underwriting. We hire the best people and develop their skills. Combining technical expertise with industry knowledge, we listen, we share and we collaborate – to create best-in-class insurance solutions for our clients. We are an influential and respected presence at Lloyd's of London and, in Syndicate 2987, we have one of the largest and most diverse portfolios.

We predominantly underwrite complex, high value insurance and reinsurance risks. Insurance represents 76.3% of our GWP while treaty reinsurance represents the balance. Our largest source of business is the US Excess and Surplus lines market and the majority of our premium income is denominated in US dollars, although the risks underwritten are distributed globally.

We complement our core classes with highly specialised niche lines which provide both diversification and the potential for high returns. We source our business through trading relationships with Lloyd's brokers, wholesale brokers, retail agents and reinsurance intermediaries, including the three largest brokers, and from a wide range of middle-tier intermediaries. The majority of reinsurance business is sourced through the global reinsurance brokers.

Through Ki, Syndicate 2988, Versutus and Sussex Re, we provide over US$856.6m of underwriting capacity. These underwriting platforms, backed by diversified sources of capital, reflect our desire to increase our flexibility, enhance our relevance to clients and brokers and reinforce the long-term relationships we have in the market.

We underwrite primarily in London, but have developed an extensive network of local offices in the US and have a presence in Bermuda and Japan. This enables us to access business that does not usually reach Lloyd's. We lead or are second agreement party on approximately 70% of the business we write, underlining our underwriting strength and expertise.

Our platform and operations

Our strong and efficient capital model results from our focus on the Lloyd's platform. As part of the Fairfax group we also benefit from the group's financial strength. We believe that our efficient, flexible and scalable operating platform provides a stable foundation that enables us to pursue our strategy of focusing on maximising profitability of the underwriting business and extending our global distribution network.

Investment management

At Brit we have a significant investment portfolio comprising financial investments, investments in associates, investment related derivatives and cash. The value of our invested assets at 31 December 2020 was US$4,857.1m. The portfolio, on a look-through basis, ended the year with an increased holding in fixed income securities (US$3,421.5m) and reduced allocations to cash and cash equivalents (US$781.3m) and equities and funds (US$628.4m). Other invested assets totalled US$25.9m.

The investment portfolio is managed for the most part by Hamblin Watsa Investment Counsel Limited, a Fairfax subsidiary with an excellent long-term track record, whose sole business is managing investment portfolios of Fairfax companies.

Our culture, values and people

We are passionate about our business, our people and our customers and we have focused on cultivating a franchise that is built on delivering exceptional service.

Our culture is centred on achievement with four key tenets: delivering on commitments and ensuring the same from others; managing risk actively to optimise reward; focusing efforts to maximise results; living a distinct ethos. In addition, we encourage enthusiasm for improvement, be it changes to process, policy or working practices, we encourage new thinking, and we encourage collective working and open and honest communication.

Our values are:

- **Absolute precision:** The pursuit of excellence in every aspect of our business, setting high standards for ourselves and ensuring accuracy of execution. Getting it right the first time;
- **Respect:** Build and maintain respectful relationships both internally and externally. Treat people the way we'd like to be treated. Behave with integrity with brokers, clients and other stakeholders. Our success depends on their success;
- **Innovation:** Exceed the expectations of our brokers, clients and other stakeholders through innovation and collaboration. Act with speed and diligence; and
- **Pride:** Having attracted the best talent, take time and effort to recognise success and excellence. Foster a culture of achievement, encourage and instil a sense of pride in everything we do.

We are change-makers enabled by a global workforce who collaborate to deliver a risk service. A team empowered not only to survive the risks we face, but to stay on the front foot and keep moving forward. We believe the uncertainty of tomorrow isn't something to fear but to seize; that it's full of potential. Not only for our customers but our employees too. Our people are valued for the unique perspective they bring to our business, no matter their age, race, religion or background. It's about doing our best work; our passion and dedication.

Our track record

Since 2009, we have successfully transformed Brit into a more focused, more profitable, more efficient and more dynamic business, driven by some of the industry's best talent. We have been proactive in delivering the best service for our clients and attractive returns to shareholders.

Over this period, Brit has demonstrated a strong track record of profitable underwriting, competitive net investment returns, growth in core business lines and disciplined capital management.

In 2020, the insurance market was dominated by COVID-19. 2020 was also the fifth-costliest year on record for non-COVID related natural catastrophes and man-made events. Together, this activity totalled US$403.2m and contributed 23.7pps to Brit's 2020 combined ratio. The impact of these events was partly offset by a strong attritional loss ratio of 52.6% and reserve releases of US$61.5m (3.6pps), resulting in a combined ratio of 112.6%. Our five-year average combined ratio is 104.1%, despite the impact of COVID-19 and the extreme catastrophe years of 2017 and 2018. Excluding the impact of COVID-19 related claims, our 2020 combined ratio was 96.7% and our five-year average is 100.9%. This year's net investment gain, after fees, of US$45.5m or 1.0%, resulting in a five-year average investment return of 2.0%. Brit's result after tax was a loss of US$232.0m and return on adjusted net tangible assets before FX was (19.6)%.

Our financial strength

Our capabilities and ambition are underpinned by our strong financial position. Our business is underwritten primarily through our wholly-aligned Lloyd's Syndicate 2987 and partly-aligned Lloyd's Syndicate 2988, which benefit from Lloyd's ratings of A (Excellent) from A.M. Best, AA- (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's.

During 2020, A.M. Best reaffirmed a Financial Strength Rating of A (Excellent), with a 'stable' outlook, to Brit Reinsurance (Bermuda) Limited (Brit Re). This rating reflects Brit Re's statement of financial position strength, which A.M Best assesses as 'very strong', and the positive impact of having Fairfax as its ultimate parent.

At 31 December 2020, we had capital resources equal to 122.1% of the management capital requirements needed to support our business and Fairfax has supported our continued capital strength allowing us to take advantage of business opportunities as they arise. Our capital strength provides the flexibility to allow us to cope with major losses while not deviating from our commitment to fund profitable expansion and to provide attractive returns.

Year	RoNTA1 %	Combined ratio %	Attritional ratio %	Investment return (net of fees) %
2020	(19.6)	112.6	52.6	1.0
2019	18.1	95.8	55.0	3.6
2018	(14.4)	103.3	57.2	(2.0)
2017	1.1	112.4	56.4	4.9
2016	11.8	96.4	55.5	2.6
2015	9.1	91.7	55.2	0.1
2014	20.7	89.5	51.0	2.9
2013	24.2	85.4	51.3	2.1
2012	18.7	93.2	51.8	2.9
2011	8.5	98.0	55.4	2.4

Note 1: Before FX and corporate activity costs

Brit at a glance

Outlook

Looking ahead to 2021 and beyond, significant uncertainty exists for the insurance industry.

- Significant uncertainty still surrounds COVID-19 and the timeframes over which vaccination programmes will allow lockdowns to be eased. We also face the consequences of the measures taken by governments driving yields down to record lows and the likely impact on the economy, with recessionary risks heightened.
- The frequency of major events and magnitude of the resulting claims, with 2020's experience following on from those of 2017 and 2018, the most costly back-to-back years on record;
- The impact of medium loss events, with commentators attributing an increase in the frequency and severity of such events to climate change and other factors such as population growth and increasing insured values;
- Further pressures on attritional ratios continue, largely driven by the soft market years of 2017 and 2018 and by social inflation in the US Casualty market;
- The cost of doing business in the London market remains elevated. The market needs to become more efficient in processing and work with distribution partners to become more competitive in local markets;
- Despite the welcome withdrawal of some capacity, available capacity continues to exceed demand;
- In a number of markets where we operate, we see increasing competition from local carriers; and
- We continue to face political and economic uncertainty and challenges. 2020 saw continued volatility in financial markets and experienced weakening growth, recession fears, falling yields, heightened tension around international trade and loose monetary policy. These trends show no signs of abating as we go into 2021 and the resulting outlook for the investment market continues to be challenging.

However, against this challenging backdrop there are a number of indicators to give us cause for optimism, including rate increases, the withdrawal of capacity in the market from certain classes and our improving attritional claims ratio. In this environment, our clear strategy of embracing data driven underwriting discipline, and rigorous risk selection, coupled with innovative capital management solutions and continued investment in distribution, positions us well to respond to the opportunities and challenges ahead.

- Preserving a strong financial position is critical to the long-term success of an insurance business. Our statement of financial position remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. We also benefit from the financial strength of our ultimate parent, Fairfax, and from our relationships with our capital partners supporting Ki, Syndicate 2988 and the Sussex vehicles.
- We also continue to take action to improve our performance and maintain our underwriting discipline and rigorous risk selection criteria in all areas of the business.
- Leadership – We strive to provide direction and authority within our business and to our industry. We are supportive of the Future at Lloyd's Blueprint and are proud to have worked with Lloyd's to be the first Lloyd's Syndicate to use ILS capacity to back our capital at Lloyd's, a landmark achievement.
- Innovation – Our purpose is to help our clients and partners thrive in an uncertain world and drive the industry forward in terms of products, services and technology, and innovation is at the heart of our strategy. BritX, our Innovation team, was launched in 2019 to create real change and action, and was the driving force behind Ki. It is aimed at targeting opportunities to disrupt our market and has identified a number of opportunities of real potential.
- Distribution – Our strategy is to deliver our products to our customers in a more efficient manner. This includes increased digital distribution and positioning ourselves closer to our customers. We have an established local distribution platform in the US, our largest market, and now have an established Bermuda operation, which houses Brit Re (our captive reinsurer and A-rated reinsurance carrier), Sussex Re (our ILS vehicle) and BGSB (our reinsurance service company).

We are ready to face the future with optimism.

our underwriting

writing the future

The world we live in is unpredictable. It's volatile, uncertain, and subject to change. At Brit, we believe that the uncertainty of the future should never stand in the way of progress. That's why we exist. To provide a risk service and help people and businesses face the future and thrive.

Our vision

A world where uncertainty never stands in the way of progress. Because we believe the uncertainty of tomorrow isn't something to fear, but something to seize.

Our mission

To help people and businesses face the future, and thrive.

At Brit, we start with the customer, and we never forget the value we deliver. A promise that provides confidence in an uncertain world.

A mission that requires us to do things differently.

If we are to help people seize the potential of the future we can't just sell insurance products, we have to provide a risk service.

- A risk service that helps clients not only prepare for, but manage and mitigate the risks they face;
- A risk service that doesn't just react to change, but sees the opportunity to create change for the better; and
- A risk service that helps people not only move on from an event, but helps them to move forward rapidly with confidence.

This forward-thinking approach comes to life in our promise, and that promise lives at the heart of everything we do.

Our promise

We don't react to the future, we write it. It's why we're the proud home of forward-thinkers, pioneers and leaders. And it informs a set of core philosophies:

- We provide a risk service, not sell insurance products;
- We treat people fairly – conducting ourselves with honesty & integrity at all times;
- We think proactively to help us and our clients live life on the front foot;
- We always speak with openness, consistency and clarity;
- We take time to make thoughtful & disciplined decisions; and
- We put innovation at the heart of our business.

The Brit difference

At Brit, **LEADERSHIP**, **INNOVATION** and enhancing our product **DISTRIBUTION** are at the heart of our strategy, underpinned by our strong underwriting and claims expertise.

We are a leading global specialty insurer and reinsurer, focused on underwriting complex risks. We have a keen appetite for leadership; leading – or acting as second lead agreement party – on approximately 70% of the business we write.

The breadth of classes we support, the depth of our experience and commitment to our clients is second to none. We strive for innovation – across our products, processes and people. We have created a stimulating environment where talented original thinkers flourish, and we channel this creativity towards meeting real customer needs: turning smart ideas into cutting-edge insurance solutions.

We are committed to creating lasting relationships with brokers and clients. Hence, we are happy to meet face-to-face, albeit 'virtually' in 2020, and make ourselves available when many others do not. Distribution is one of the key strands of Brit's 'LID' strategy – we are focussed on understanding our key customers and tailoring our distribution strategy across four key areas; open market, coverholders, reinsurance and digital.

We also have a longstanding ethos of social responsibility and we have a strong culture of 'doing the right thing'; from volunteering in our local communities to supporting good causes further afield. The projects we choose align with our strategic priorities and each year, ten charities are chosen by our employees for significant support.

Our ultimate parent company – Fairfax Financial Holdings Limited – provides us with the best of both worlds: a strong and stable base for long-term growth, combined with the freedom to pursue our own identity, philosophy and ambitions.

our underwriting

Providing a risk service

Choosing to work with Brit means clients are choosing a service, not just buying a product.

Every day, our multidisciplined team brings diverse skills and experience to our clients' businesses, and this deep underwriting expertise helps clients to effectively mitigate their risks.

By working in close collaboration across Underwriting, Claims, Actuarial and Technology, our teams gain and share unparalleled insight into the risks that our clients face.

- Insight that helps us understand our client intimately, and enables us to deliver a global service.
- Insight that helps us not only lead the business we write, but also to be a meaningful and valuable partner to those we work with.
- Insight that helps us select and price risk with industry leading accuracy.
- Insight to respond to events efficiently and effectively.
- Insight that drives us to deliver market-leading innovation across all four phases of the customer experience – pricing, risk management, claims and renewals.

Underwriting and claims excellence

Underscored by comprehensive underwriting, claims and risk services, we operate as a market lead across our full range of services. At Brit we pride ourselves on Underwriting and Claims excellence, deploying the latest tools and a disciplined approach, we have a long record of strong performance.

Underwriting excellence

We have a long and successful track record of leading an extensive range of insurance and reinsurance programmes, based on rigorous risk selection and a disciplined approach to underwriting. We hire the best people and develop their skills and expertise. Combining technical expertise with industry knowledge, we listen, we share and we collaborate – to create best-in-class insurance solutions for our clients.

We are an influential and respected presence at Lloyd's of London. With one of the largest and most diverse portfolios, we underwrite primarily through our Syndicates 2987, 2988 and Ki 1618. We are also helping lead Lloyd's market modernisation project and have met the 2020 implementation targets set by Lloyd's.

Claims excellence

Should the worst happen, our team of claims professionals are committed to helping those affected not only to move on from the incident, but to move forward.

When a customer has a claim, their life or business has been disrupted, or even put in peril. They expect their insurance to deliver – and it is our responsibility to fulfil that commitment. At Brit, we do not treat claims as a process; we see every claim as an opportunity to help customers move forward with their lives.

Our team is highly experienced at both senior and adjuster levels, and has successfully managed claims arising from some of the market's most challenging events. We know when to fast track the simple things – and how best to address more complex issues. Our claims professionals work closely with our underwriters. It is this collaborative approach that gives us real insight into the risks that our clients face, enabling us to tailor our responses appropriately.

In 2018 and 2019 our claims team won the 'Claims Team of the Year' at the Insurance Day London Market Awards, in recognition of our strong focus on enhancing the end customer experience alongside our ability to use innovation to improve both service levels and efficiency, and the 'Claims Team of the Year' at the LMA awards.

In 2020, Marsh and Lockton rated Brit the number one carrier for services provided in the London Market, while AJG ranked us third in the London Market and Aon ranked us third out of 34 carriers.

Market-Leading Innovation

By putting innovation at the heart of our business we are constantly looking for ways to provide the ongoing value that will help our customers thrive in a changing world. Our ultimate parent company, Fairfax Financial Holdings Limited, gives us the perfect foundation to do just that, providing a strong and stable base for long-term growth, while allowing us the flexibility to be agile in an ever-evolving industry.

Brit has continued to deliver market-leading innovation:

- In 2020, Brit launched Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's of London syndicate. Further details are included on page 18.
- In December 2020, Brit successfully sponsored a 144A cat bond issuance, via Sussex Capital UK PCC Limited. This is the first time a protected cell of a UK domiciled multi-arrangement risk transformation vehicle has issued a 144A cat bond.

Extensive network

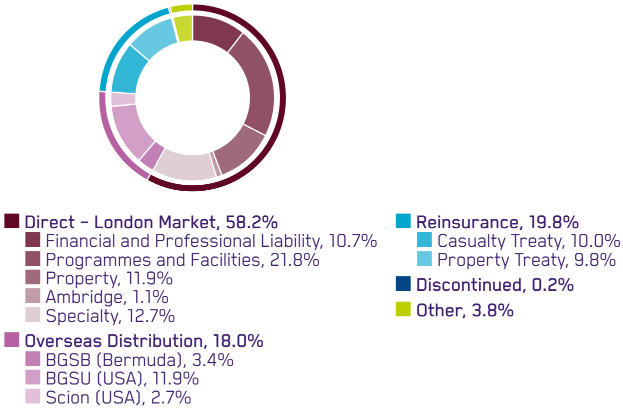
We are proud of our extensive distribution network. We have strong links with local producers, which enable us to efficiently provide long-term capacity for risks that would not otherwise reach the Lloyd's market.

We are absolutely committed to building relationships and working closely with our clients to understand and exceed their needs. With offices in the UK, the US, Bermuda and Japan, our network allows us to reach and serve clients globally.

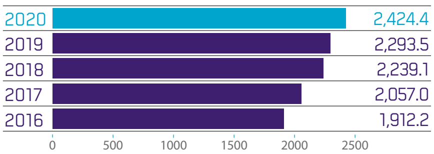
In such a competitive industry, we never forget that it is a privilege to manage someone's insurance business. Hence, we value and nurture our relationships with brokers and coverholders; they are integral to our distribution capability.

Our specialist Delegated Underwriting Management team has a reputation for its commitment to excellent customer service.

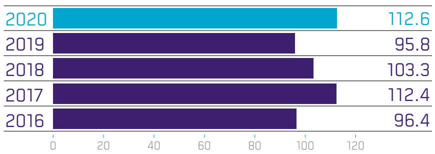
Group GWP by line of business (%)



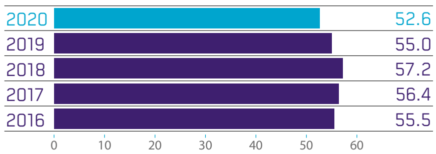
Group GWP (US$m)



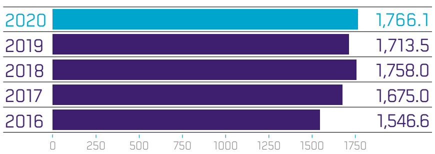
Group combined ratio (%)



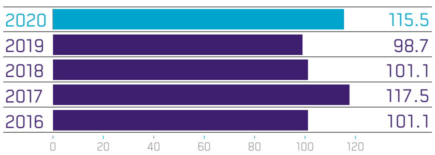
Group attritional ratio (%)



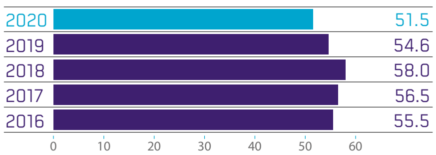
Brit Global Specialty Direct GWP (US$m)



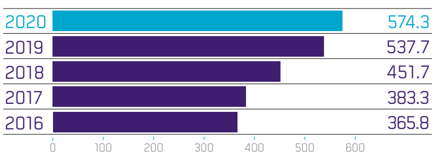
Brit Global Specialty Direct combined ratio (%)



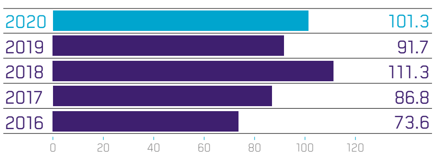
Brit Global Specialty Direct attritional ratio (%)



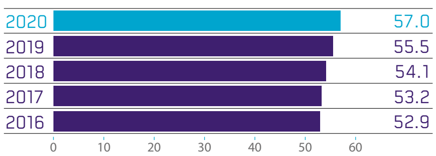
Brit Global Specialty Reinsurance GWP (US$m)



Brit Global Specialty Reinsurance combined ratio (%)



Brit Global Specialty Reinsurance attritional ratio (%)



The 2020 combined ratios excluding COVID-19 related claims were: Direct 100.9%; Reinsurance 80.6%; Group 96.7%

writing the future

The breadth of classes we support, the depth of our experience and our commitment to our clients differentiates us.

London Direct

Fin Pro

D&O

Directors' and Officers' (D&O)
As recognised experts in the D&O market, we are renowned for our underwriting precision, specialising in tailoring products to precisely match individual clients' needs.

FI

Financial Institutions
As acknowledged leaders in the traditional insurance lines, we also offer exclusive, innovative solutions for organisations of all sizes across mature and emerging economies.

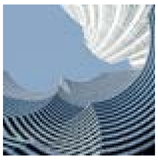
Cyber

Global Cyber Privacy and Technology
Providing cutting-edge products that address the multitude of exposures from first and third-party perspectives relating to network security, privacy and data protection risk.

Healthcare

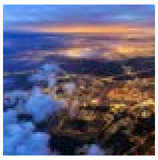
Healthcare Liability
With a wealth of industry expertise, our team delivers innovative products backed by exceptional service, focusing on hospitals, allied health and long-term care liability.

US PI

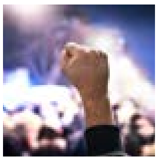


North American Professional Liability
An established leader in this sector, we provide cover on both an open market and binding authority basis. Clients range from small start-ups to the largest multinationals.

Property

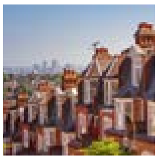


Political Risk and Trade Credit
Covers non-payment/performance of counterparties and confiscation, expropriation, nationalisation, deprivation, sequestration or forced abandonment of overseas assets.



Political Violence
Covers physical damage and business interruption losses due to perils including terrorism, strikes, riots, civil commotion, war on land and nuclear, chemical, biological and/or radiological attacks.

Open Market and Worldwide Property
Our technical expertise in the areas of catastrophe modelling, pricing, policy wordings and claims has made us a market of choice for both brokers and clients.



UK Property
We have a proven track record of writing and delivering flexible commercial solutions to address the precise nature of our customers' requirements.

Specie and Private Client
Our team has over 25 years of underwriting experience in the High Net Worth market, specialising in tailoring products to clients' needs.

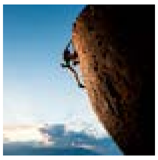
London Direct

Facilities

Accident and Health (A&H)

Contingency
An established lead market offering specialist products for diverse risks including event cancellation, film production, non-appearance and prize indemnity.

Kidnap for Ransom
The world's security environment is constantly changing and our individually tailored kidnap for ransom product has been designed to respond to these evolving threats. Our clients range from private individuals to large multinationals.

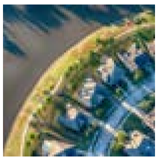


Personal Accident and Medical Expenses
A vibrant, performance-orientated team, leading across a wide range of in-demand products. Our focus is innovative solutions and responsiveness in partnerships.

Property Facilities

Commercial Property
Our established portfolio insures owners of commercial property and package risks through selected coverholders and Lloyd's brokers.

Property Financial
Coverage for financial institutions, loan servicers and property investors, including lender-placed hazard and flood protection. We also offer mortgage impairment coverage.



Residential Property Facilities
Coverage for primary, secondary and vacant dwellings plus condominium units in the US and Canada. Flood, Earthquake and Landslide available separately or as a package.

High Value Homes
Solutions for owners or occupiers of high value or unusual residential property, including primary, secondary, rental, vacant and under construction or renovation.

Transport

Transportation
We insure commercial automobile physical damage and motor truck cargo across the US and Canada. We target smaller fleets and source business through a network of Lloyd's brokers and coverholders.

Long Tail Facilities

Legal and Structured Solutions
A leader in Before the Event (BTE) or After the Event (ATE) legal expenses coverage for individuals, companies and affinity groups worldwide, we deliver bespoke structured insurance solutions for financial, contingent and legal risks.

Small North American Liability
We insure small and medium-sized enterprises in the USA and Canada for financial recourse resulting from their professional negligence, errors and omissions.

London Direct

Specialty

Marine

Cargo
An experienced and respected team covering cargo on ships, aircraft or in warehouses worldwide – as well as project cargo for construction and inland marine exposures.

Marine Hull and War
An expert team providing market-leading Hull insurance across the Lloyd's platform. Brit insures a range of commercial bluewater tonnage as well as specialist operations on a worldwide basis.

Marine Liability
Offering specialist cover including protection and indemnity, charterers' liability and pollution as well as energy liability products for upstream exploration and production.

Energy

Energy
A highly technical class with an experienced and well-respected team offering coverage for all aspects of Upstream and Midstream Energy operations, including renewables.

Space

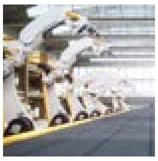
Space
For over twenty years we have led the Brit Space Consortium, offering bespoke wordings for both launch and in-orbit risks to carefully selected clients.

EL and PL

Environmental Liability and Public Liability
An experienced team with a flexible approach to UK and international liability business including Employers, Public, Products and Environmental Liability across a range of territories. Our expertise encompasses construction, transportation, oil and gas, renewable energy, utilities, infrastructure, manufacturing and local government – on a primary and excess basis.

London Reinsurance

Casualty



Casualty Treaty

The Casualty team underwrites a predominantly non-proportional reinsurance (including retrocession) account, covering all the principal casualty classes – as well as Personal Accident and other accident classes. These include Property Terror, Products Recall, Credit/Bond/Surety, Political Risks and Contingency. We underwrite on a worldwide basis and are a recognised quoting market.

Property

Property Treaty

Our team of specialist underwriters provides superior service to brokers and clients utilising a blend of up-to-date technical expertise, embedded modelling capability and real-world market experience. Our client base represents a significant and established cross-section of carriers writing simple homeowners' policies through to complex commercial/industrial risks.

Overseas Distribution

USA (BGSU)

BGSU offers a range of E&S, admitted and reinsurance cover with a focus on property, casualty and marine. Headquartered in Chicago, it has underwriting nationwide offices servicing each US time zone. It underwrites:

Construction Professional

Contractors Professional Liability (E&S)

Cyber & Technology

Excess Casualty (E&S)

General Liability (E&S)

Miscellaneous Professional Liability (E&S)

Owner Protective Indemnity

Programs (Admitted and E&S)

Alternative Risk Package (E&S)

U.S. Casualty Treaty (Reinsurance)

U.S. Political Violence (Terrorism)

U.S. Property Facultative (Reinsurance)

Bermuda (BGSB)

Our Bermuda operations complement our distribution network and are a key step in developing Brit's global offering. They underwrite:

Property Treaty

Casualty Treaty

Ki, the first algorithmically driven Lloyd's of London syndicate

Ki is a standalone business, launched for 2021, and the first fully digital and algorithmically-driven Lloyd's of London syndicate (Syndicate 1618) that will be accessible anywhere, at any time. We believe Ki will redefine the commercial insurance market with its digital and data-first model.

Ki marks a step change for an industry that is yet to face the disruption seen across the rest of financial services and other industries. It aims to significantly reduce the amount of time and effort taken for brokers to place their follow capacity, creating greater efficiency, responsiveness and competitiveness. Google Cloud brings to Ki enterprise-grade cloud solutions powered by innovative technologies that enable rapid transformation at scale. Ki's algorithm is able to evaluate Lloyd's policies and automatically quote for business through a digital platform which brokers can access directly. The selection process is performed using a proprietary algorithm developed with support from University College London and their Computer Science department. Ki follows several 'nominated' lead syndicates across the Lloyd's market, including Brit. Ki offers brokers a line on every risk in the selected classes led by these markets.

Ki truly embraces all that is represented in 'The Future at Lloyd's' by bringing data, technology, innovation and artificial intelligence to the fore in the complex world of corporate and specialty underwriting. With Lloyd's focus on e-placement and the ever-increasing adoption of electronic trading, we expect the transition in how the Lloyd's market transacts business to be accelerated.

Ki completed one of the largest fundraises of any start-up in Europe in 2020 with US$500m of committed capital invested by Blackstone Tactical Opportunities (Blackstone) and Fairfax. This capital commitment has funded Ki's launch and will enable the business to grow rapidly to significant scale.

Securing support from Blackstone, one of the world's leading investment firms, is a significant statement of confidence in Ki and the vision we have set out. With its investors, Ki has the financial firepower to rapidly scale the business and support its plan to provide a truly differentiated offering to brokers and clients

Ki has also onboarded its first trading partners, a leading group of Lloyd's brokers including Aon, Aon Re, BGCI, including Ed and Besso, Bishopsgate, BMS, Gallagher, Guy Carpenter, Howden, Lockton, Lockton Re, Marsh, Miller, Price Forbes, AmWins/THB, Tysers, Willis, and Willis Re. Ki has agreed to provide valuable capacity to each trading partner in 2021, giving their clients immediate security about placing business in Lloyd's.

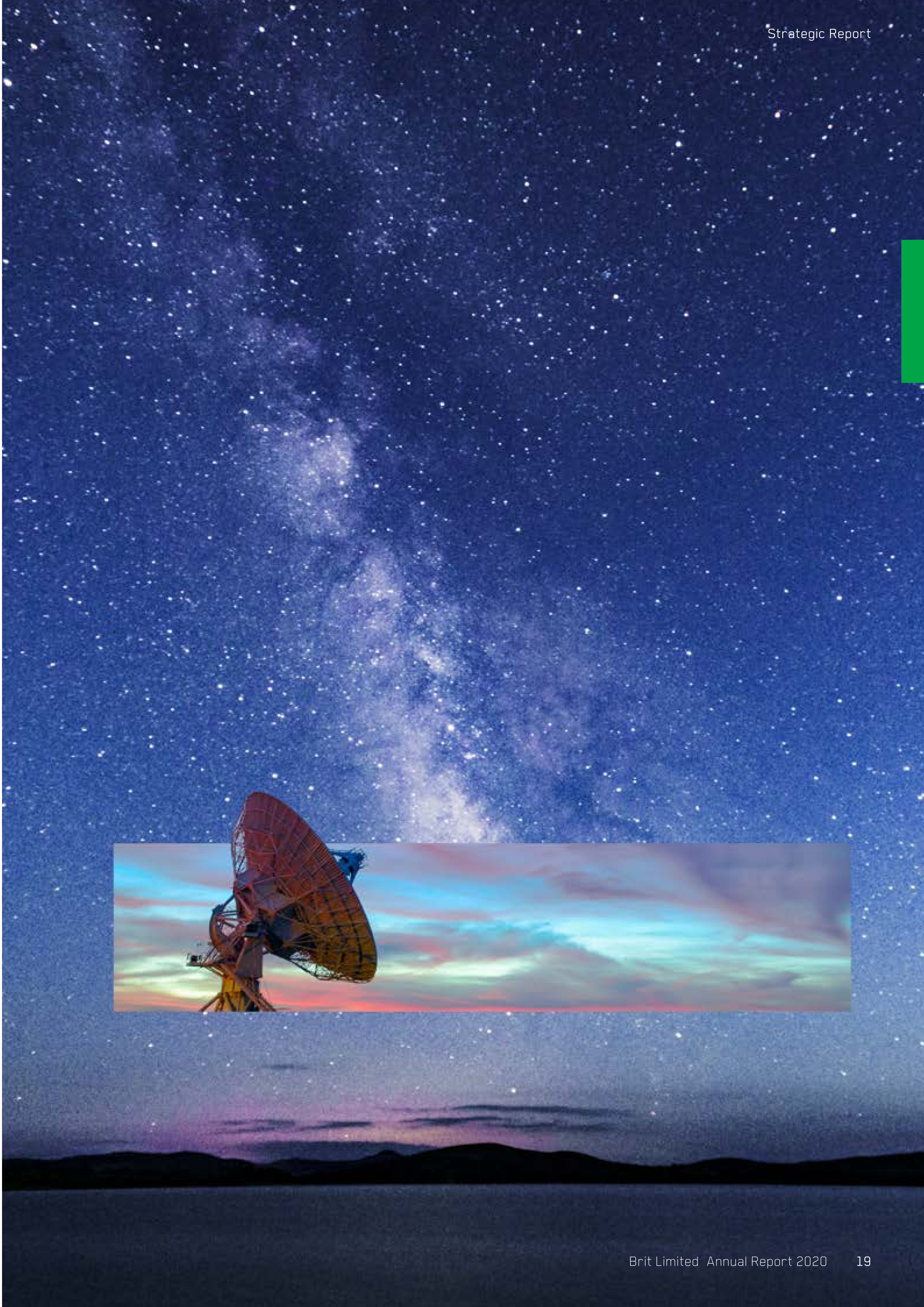
Ki is continuing to focus on innovation, with two upgrades to the platform deployed in the first 60 days following launch. In 2021, Ki will deliver additional platform capability on the back of broker feedback, broaden out the use of non-Brit Lloyd's lead markets into new classes and digitally integrate with a number of broker partners.

These developments are Lloyd's firsts, enabling seamless and instantaneous commitment of follow capacity in the market and comes on the back of the recent launch of Lloyd's Blueprint Two and realises a vision for the digital future for the Lloyd's follow market.

Ki has brought together a team combining the best talent from the current Lloyd's model, with a strong focus on relationships and deep underwriting and broker expertise in the Portfolio Underwriting team led by Dan Hearsum, combined with leading technology, data science and actuarial skills in its Portfolio Management and Development functions, led by Alan Tua and James Birch respectively.

In October 2020, Ki Syndicate 1618 achieved 'permission to underwrite' from Lloyd's, and in November it bound its first risk, with its line having been generated by its proprietary algorithm, a first in the Lloyd's market. Ki plans to write cUS$400m of GWP in its first year, which would make it the largest ever digital start-up in Lloyd's.

Further information can be found at www.ki-insurance.com and https://youtu.be/_gZUqDGjTrI.



underwriting review

2020 underwriting review

COVID-19

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 our 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 has been significant, with claims of US$270.7m related to COVID-19 being reported within Major Losses in the period. These losses have driven an increase of 15.9 percentage points (pps) in our combined ratio. COVID-19 has predominantly impacted our Contingency (Event Cancellation) and Casualty Treaty books.

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 FCA'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 Group.

During 2020, we have managed to maintain the collaborative, can do attitude that has set us apart in the market, and proved we can operate a leading insurance business remotely and electronically. Our ability to collaborate using technology has allowed us to carry on with our goals, and our culture of managing risk actively has allowed us to adapt. We have moved paper-based brochures to e-books, physical stamps to e-stamps and, thanks to our portals and PPL, are able to seek out new business opportunities with our e-distribution capability.

We have learnt much about ourselves during lockdown and our culture has excelled, showing itself to its best. New positive cultural attributes have also emerged during lockdown, together with some areas that we need to work harder on in a working from home environment.

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. Brit's investment return for the twelve months to 31 December 2020 was a positive US$45.5m, which is discussed later in this report.

Major loss activity

2020 also saw a high level of non-COVID-19 related major loss activity, with an estimated US$83bn of global insured losses arising from natural catastrophes and man-made events, an increase of 32% over 2019 (US$63bn) and the fifth-costliest on record. Natural catastrophes, including hail storms, wildfires and floods, accounted for US$76bn of the estimate, as well as having a devastating impact on people's lives, homes and businesses. The windstorm season was very active, with record number of named storms, albeit resulting in only moderate insured losses of US$20bn. The estimated global economic loss of all 2020 events is approximately US$187bn (2019: US$149bn).

The main events impacting Brit in 2020 were Hurricane Laura, Hurricane Sally, Hurricane Zeta, the Nashville Tornadoes and US Civil Unrest. The net impact to Brit of the claims incurred from these events, before reinstatements, was US$132.5m, or 7.8pps on the combined ratio (2019: US$58.4m/3.6pps). Whilst moderate individually, they accumulate to a significant total, well above average expectations. These events have disproportionately hit insurance lines and less populated areas outside of the peak zones. As a result, we have seen higher exposure from our coverholder business, which is deliberately weighted to these exposures and provides balance to the overall property account.

Rate increases

The market has continued to benefit from strengthening premium rates during 2020. Brit achieved an overall risk adjusted rate increase of 10.6% (2019: 5.9%). All divisions have continued to achieve rate increases, with the largest underwriting review

increases achieved in Property D&F, Marine Cargo, D&O and Excess Casualty.

RARC since 1 January 2018 now +20.2%, analysed across portfolios as follows:

	2018 %	2019 %	2020 %	Total %
London – Direct	3.6	7.1	10.7	21.4
London – RI	3.1	2.4	7.2	12.7
Overseas Distribution	4.5	6.4	14.6	25.5
Total	**3.7**	**5.9**	**10.6**	**20.2**

Our customers

Our customers are our priority. When a customer has a claim, we understand they are facing difficult and unexpected challenges. They expect the insurance they have purchased to respond and deliver when they need it most. We see each and every claim as an opportunity to deliver the claims service our customers need to move forward with their lives. This claims service has included:

- Driving a strong effort to respond to a high volume of COVID-19 claims experienced throughout the year, including assisting many commercial lines customers and brokers who had previously never experienced a loss, with the extra support they needed to expedite and resolve their claim;
- Working with our local third-party claims adjusters on a high volume of property and business interruption claims in a variety of jurisdictions in response to COVID-19 and related government actions. Collaboration with our local TPAs was robust and required extra effort in the early stages of developing a response strategy;
- Maintaining a focus on responding to our customers and pursuing opportunities to reduce claims lifecycle and bring claims to resolution at every opportunity;
- Utilising Geospatial Intelligence Centre technology to advance our property claims adjusting capabilities by capturing high resolution images of Brit-insured properties affected by events ranging from tornadoes in Nashville, to Hurricanes Laura, Sally and Zeta. Losses were immediately referred to our TPAs for payment, where covered damage(s) could be determined, even when affected areas could not be accessed by local field adjusters;
- Swiftly establishing dedicated loss funds for our TPAs and coverholders, to expedite claims payments;
- Proactively making interim or partial payments whenever possible to support our insureds' recovery efforts; and
- Completing a proof of concept and subsequently introducing to brokers our new Brit Direct Pay innovation. Brit Direct Pay provides our customers the option of self-directing their payment through a custom app directly to their Visa bank card so that their claims payment can be transferred within hours, or sooner. This is the first of its kind in the London market, and we have plans to expand the capability to the US in 2021.

Our underwriting

Our overall GWP for 2020 was US$2,424.4m, an increase of 5.7% over 2019 (US$2,293.5m), or 5.6% at constant rates of exchange. We saw dramatic reductions in some areas of the business as COVID-19 impacted travel, events and M&A and have continued to refine our portfolio where conditions have been challenging. This has reduced the headline growth rate despite us seeing strong growth in other areas including Property Treaty, Specialty, Property, Financial and Professional Lines and Scion, reflecting the strong rating environment and targeted growth as conditions improved.

Our retention ratio, the proportion of our business that renews on a premium weighted basis, was 76.1%, marginally lower than in 2019 (78.0%). Across all lines, we have retained our underwriting discipline and are prepared to discontinue accounts that we believe are inadequately priced or outside of our appetite.

Distribution remains central to our strategy, and we continue to build our network. Our overseas offices make a significant contribution to the Group, providing 19.2% of GWP, and allowing us to access business not generally available in London. In 2020 they generated US$465.4m of premium (2019: US$508.6m).

- Brit Global Specialty USA (BGSU) has written US$289.7m of premium (2019: US$305.8m). We have streamlined and refocused our product set, focusing on classes where we see sustainable opportunities and the potential to operate at scale.
- Scion Underwriting Services Inc., our US MGA headed by Scott Brock, generated US$64.8m of premium for Brit in 2020, in its third year of operations (2019: US$46.0m). This growth reflected the strong rating environment and increased market traction.
- Ambridge Partners LLC, our New York based MGA, generated US$27.8m of premium for Brit (2019: US$46.7m). This reduction reflects the reduction in corporate transactional activity resulting from the impact of COVID-19 and from other factors such as Brexit uncertainty.
- Our Bermuda operation continues to selectively write reinsurance business in lines and markets that we believe are well rated. Premiums generated by our Bermuda office in 2020 equated to US$83.1m (2019: US$110.1m). The reduction relates to discontinuing our Casualty Treaty operation in 2020 as previously announced.

Our combined ratio in 2020 was 112.6%, including 15.9pps in respect of COVID-19, 7.8pps in respect of other major losses and (3.6)pps of reserve releases. Over the past five years, we have delivered an average combined ratio of 104.1% despite the impact of COVID-19 and extreme catastrophe years of 2017 and 2018. Excluding the impact of COVID-19 related claims, our 2020 combined ratio was 96.7% and our five-year average is 100.9%.

underwriting review

Overall, the combination of strong portfolio management and underwriting discipline has led to us achieving a 52.6% attritional ratio in 2020 (2019: 55.0%), a strong underlying performance.

As part of our standard reserving process, we released US$61.5m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 3.6pps (2019: US$47.9m/2.9pps). This reflected an improvement in Brit's overall net estimates arising from the 2017 to 2019 major loss events, and favourable attritional development across our London Direct and London Reinsurance portfolios. These releases were partly offset by a strengthening in our Overseas Distribution portfolio, reflecting adverse attritional experience and inflationary pressures in BGSU.

Our business developments during 2020

During 2020 we have continued to focus on our underwriting strategy. Developments have included:

- **Ki, the first algorithmically driven Lloyd's of London syndicate**

  In 2020, Brit launched Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's of London syndicate. Further details are included on page 18.

- **Issue of Brit sponsored US$300m Cat Bond**

  On 14 December 2020, Brit successfully sponsored a 144A cat bond issuance, via Sussex Capital UK PCC Limited. The bond provides US$300m of multi-year named storm and earthquake protection for a risk period of four years to 31 December 2024. Structured on an annual aggregate state weighted basis, the proceeds from the bond will be used to collateralize a reinsurance agreement with Brit Syndicates Limited, acting on behalf of Syndicate 2987, and Sussex Capital UK PCC Limited. This is the first time a protected cell of a UK domiciled multi-arrangement risk transformation vehicle has issued a 144A cat bond.

- **Private Client launch**

  In May, we announced the launch of our new Private Client offering. Brit Private Client offers brokers operating in the high and ultra-high net worth market, and their clients, a credible new alternative, combining Brit's brand and reputation in claims and service with a team of highly regarded market practitioners. It differentiates itself through its bespoke approach, offering clients personalised solutions through a single policy that will include significant limits, worldwide coverage and additions such as personal cyber. Coverage includes homes, rare and valuable possessions, annual travel and cars all in one policy. The focus of the book is the UK and Ireland.

- **E-trading microsite**

  In July, our e-trading microsite (www.britinsurance.com/e-trading) went live, increasing our ability to shine a light on our Cyber, Kidnap and Ransom, Terror, Flood and Private Client portal services. This demonstrates how innovation is becoming central to everything we do at Brit, while also demonstrating our distribution strategy in action.

- **Continued development of BGSU**

  BGSU Cyber and Technology expansion: In January, we appointed an Assistant Vice President (AVP), Cyber and Technology and, in April, we appointed an AVP, Cyber. These roles will support the underwriting and growth of Brit's US Cyber portfolio.

BGSU Programs: In April, BGSU appointed a Vice President (VP), Programs, to develop BGSU's Specialty Program offering and identify future opportunities for growth, working closely with prospective MGAs. In December, BGSU appointment a VP Programs, to develop and expand the current portfolio.

BGSU Terrorism: BGSU launched a Terrorism product with the appointment of a VP, Terrorism. Working with the London Terrorism team, the US team will look to enhance Brit's profile as a highly respected Terrorism market leader.

- **Continued Portfolio Management**

  Where classes remain challenging, we have continued to take action to improve our performance and maintained our rigorous risk selection criteria. During 2020, we examined the classes we write in BGSU and took the following decisions:

BGSU Cargo and First Dollar: BGSU exited Cargo and First Dollar, and completed two renewal rights disposals in respect of these classes. Under both transactions, a number of Brit staff transferred with the renewal rights.

- **BGSU Property E&S:** In November, BGSU exited Property E&S following a review of its performance and prospects. Despite significant rate rises, the lack of scale, inherent volatility and cost of reinsurance protection made this book untenable. We are reallocating the catastrophe aggregate to our Programs and Reinsurance Classes where we see greater opportunity to make profitable margins both now and over the market cycle.

- **Commonwealth (CICA)**

  During 2020, we progressed the sale of CICA. The transaction completed on 5 February 2021 for a consideration of US$19.7m. CICA is a US admitted carrier that holds a number of licences to operate as an insurance company. Brit originally acquired CICA in April 2018 at a cost of US$16.4m.

- **2021 business planning**

  With the launch of Ki Syndicate 1618, Brit's planned premium growth across all three syndicates for 2021 is 27.9%. This makes Brit one of the fastest growing large managing agents in the market, demonstrating the value and strength of Brit to the Lloyd's Market.

  Syndicate 2987's GWP is planned to grow by 12.5%. As in previous years, we continue to actively manage the portfolios by segmenting Classes into 'High Performing', 'Core Growth', 'Core New Initiatives', 'Core Opportunistic' and 'Portfolio Management'. Growth (excluding RARC) is driven primarily by the 'High Performing' and 'Core Growth' segments, while the largest increases in RARC are targeted on the weakest performing segments of the portfolio.

  Syndicate 2988's GWP is planned to grow by 12.8%. The 2021 plan promotes continued diversification of the Syndicate's portfolio, by growing the 'High Performing' and 'Core Growth' segments such as Casualty Treaty. Growth in Syndicate 2988 premium is largely a function of greater penetration into Syndicate 2987's business plus selective growth of existing business.

financial performance review

Key Performance Indicators

At Brit we monitor and measure our performance by reference to certain key performance indicators (KPIs). These KPIs are used by us to manage our business and allow us to see, at a glance, how we are performing.

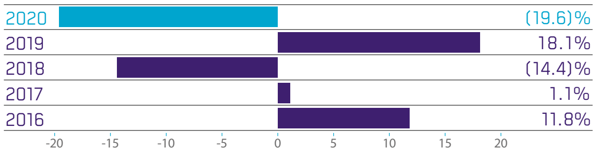
Our six KPIs show the returns that we are generating, the performance of our underwriting activities, our investment portfolio, our financial strength and our efficient, flexible and scalable platform. The development of our KPIs over the five years (set out below) reflects our successful major transformation programme, together with the challenges presented by the deterioration in underwriting market conditions and the increase in investment market volatility.

A reconciliation of each KPI to the amounts presented in the financial statements, where relevant, is included in the Annual Report and Accounts starting on page 176 and definitions of each of our KPIs are included in the Glossary starting on page 181.

Overall performance

Return on net tangible assets before FX movements and corporate activity costs (RoNTA)

(19.6)%



Return on net tangible assets before foreign exchange movements (RoNTA) shows the return being generated by our operations compared to the adjusted net tangible assets deployed in our business.

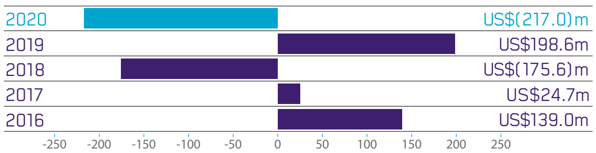
In 2020, our RoNTA was (19.6)%, reflecting the impact of COVID-19, and other major losses activity, partly offset by a strong attritional performance, solid prior year reserve releases, and a positive investment return.

This return resulted in a five-year average RoNTA of (0.6)%. RoNTA for 2020 after foreign exchange movements was (19.2)% (2019: 18.4%).

Overall performance

Total value created

US$(217.0)m



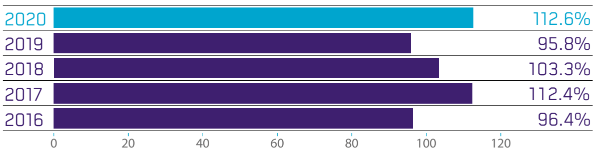
The total value created measures the increase in adjusted NTA (before distributions, capital raisings and intangibles created on acquisitions) in a year. It reflects the post-tax result recorded in the income statement and all other value movements.

In 2020, value creation was a negative US$217.0m, or 18.9% of opening adjusted NTA. The company has generated a total value of US$(30.3)m over the past five years, an average of US$(6.1)m per annum.

Underwriting

Combined ratio

112.6%



The combined ratio is our key underwriting metric and measures the profitability of our underwriting. It shows how much of every US$1 of premium is spent in the total costs of sourcing and underwriting the business and settling claims. A combined ratio under 100% indicates underwriting profitability.

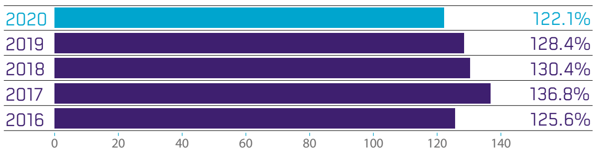
Our combined ratio in 2020 was 112.6%, including 15.9pps in respect of COVID-19 related claims and 7.8pps in respect of other major losses, partly offset by (3.6)pps of reserve releases. Over the past five years, we have delivered an average combined ratio of 104.1% despite the impact of COVID-19 and extreme catastrophe years of 2017 and 2018.

Excluding COVID-19 related claims, our 2020 combined ratio was 96.7% and our five-year average combined ratio was 100.9%

Capital management

Capital ratio

122.1%



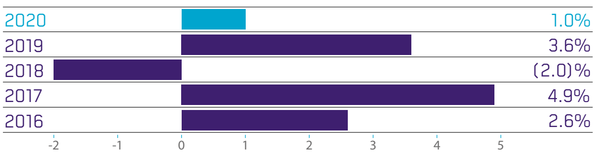
The capital ratio measures the strength of our statement of financial position by comparing our available capital resources to the capital we need to hold to meet our management entity capital requirements.

Our statement of financial position remains strong. At 31 December 2020, following capital injections from Fairfax in 2020 of US$524.0m, Group capital resources totalled US$1,881.3m giving surplus management capital of US$341.0m (2019: US$348.9m), or 22.1% (2019: 28.4%) over our Group management capital requirement. During 2020, our capital requirements increased from US$1,227.7m to US$1,540.3m, primarily reflecting movements in interest rates and Brit's share of the capital requirement of Ki Syndicate 1618. Brit has met its regulatory capital requirements at all times during 2020.

Investment management

Investment return

1.0%



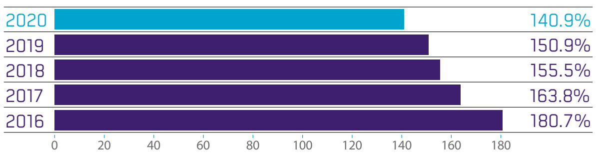
We assess the performance of our investment portfolio by comparing the return generated by our invested assets, net of external investment related expenses, against the average value of those invested assets.

Our investment strategy takes a long-term view of markets, which can lead to significant variations in our year-on-year return figures. Over the past five years, we have delivered an average investment return of 2.0%.

Operating platform

Ratio of front office employees to back office employees

140.9%



This measure monitors the efficiency of our business model by comparing the number of front office client-facing revenue generators and service providers to the number of back office employees. An increase in the ratio would suggest that the back office is becoming more efficient in supporting the client-facing activities of the front office.

At 31 December 2020, the ratio was 140.9%, reflecting that we had approximately 1.4 front office employees for every back office employee.

The reduction in the ratio in 2020 follows the trend in recent years and primarily reflects the relative increased back office staff to support our overseas growth, third-party capital management and regulatory requirements.

financial performance review

Overview of Results

The Group's income statement, re-analysed to show the key components of our result, is set out below:

	2020 US$m	2019 US$m	2018 US$m	2017 US$m	2016 US$m
Gross written premium	**2,424.4**	2,293.5	2,239.1	2,057.0	1,912.2
Net earned premium (Note 1)	**1,714.0**	1,638.5	1,466.1	1,540.1	1,515.1
Underwriting result (Note 1)	**(215.0)**	68.4	(56.9)	(172.8)	54.6
Underwriting result	**(215.0)**	68.4	(56.9)	(172.8)	54.6
Return on invested assets, net of fees	**45.5**	148.1	(82.1)	204.2	102.9
Corporate expenses	**(23.6)**	(20.3)	(20.0)	(24.0)	(21.3)
Finance costs	**(23.6)**	(23.7)	(18.8)	(17.1)	(18.8)
Other items	**(17.0)**	10.5	(3.4)	2.6	1.1
(Loss)/profit on ordinary activities before tax, and FX	**(233.7)**	183.0	(181.2)	(7.1)	118.5
FX movements	**3.2**	3.3	(9.1)	12.6	41.3
(Loss)/profit on ordinary activities before tax	**(230.5)**	186.3	(190.3)	5.5	159.8
Tax	**(1.5)**	(6.4)	23.8	16.0	(2.2)
(Loss)/profit for the year after tax	**(232.0)**	179.9	(166.5)	21.5	157.6

Note 1: Excluding the effects of foreign exchange on non-monetary items.

Group performance and total value created

2020 was dominated by COVID-19 and other major losses. However, we also saw a further improvement to market conditions, a strong attritional performance, continued reserve releases and a good investment return.

The result on ordinary activities for the year before tax and FX was a loss of US$233.7m (2019: profit of US$183.0m), loss before tax was US$230.5m (2019: profit before tax of US$186.3m) and loss after tax was US$232.0m (2019: profit after tax was US$179.9m). Return on adjusted net tangible assets (RoNTA), excluding the effects of FX, was (19.6)% (2019: 18.1%). RoNTA for 2020 after including foreign exchange movements was 18.4% (2019: 18.4%) and total value created for the year was a negative US$217.0m (2019: positive US$198.6m).

Our adjusted net tangible assets at 31 December 2020 totalled US$1,436.8m (2019: US$1,150.4m).

Performance measures

In addition to our KPIs, we have other measures that offer further insight into the detail of our performance. These measures include:

- **Premium related:** Risk adjusted rate change; Retention rate;
- **Claims related:** Claims ratio; Attritional loss ratio; Major claims ratio; Reserve release ratio; and
- **Underwriting expense related:** Underwriting expense ratio; Commission ratio; Operating expense ratio.

Underwriting

Overview

Our underwriting result for the year was a loss of US$215.0m (2019: profit of US$68.4m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items, was 112.6% (2019: 95.8%). The premiums, claims and expenses components of this result are examined below.

Premiums written

Premium growth	2020 US$m	2019 (Restated) (Note1) US$m	Growth %	Growth at constant FX rates %
London Market Direct	**1,411.6**	1,361.7	3.7	3.6
London Market Reinsurance	**479.2**	427.5	12.1	12.0
Overseas Distribution	**437.6**	462.0	(5.3)	(5.3)
Discontinued underwriting	**5.0**	11.2	(55.4)	(56.1)
Other underwriting	**91.0**	31.1	192.6	192.6
Group total	**2,424.4**	2,293.5	5.7	5.6

Note 1: The 2019 analysis has been re-analysed to reflect the underwriting class monitoring structure introduced in 2020.

Premiums by division and class		2020 US$	2019 (Restated) (Note1) US$
London Market Direct	Financial and Professional Liability	**260.1**	224.2
	Programmes and Facilities	**528.7**	577.8
	Property	**287.7**	259.1
	Ambridge	**27.8**	46.7
	Specialty	**307.3**	253.9
		1,411.6	1,361.7
London Market Reinsurance	Casualty Treaty	**242.6**	236.6
	Property Treaty	**236.6**	190.9
		479.2	427.5
Overseas Distribution	BGSB (Bermuda)	**83.1**	110.1
	BGSU (USA)	**289.7**	305.9
	Scion (USA)	**64.8**	46.0
		437.6	462.0
Discontinued (Note 2)	Discontinued	**5.0**	11.2
Other (Note 3)	Other	**91.0**	31.1
Total		**2,424.4**	2,293.5

Note 1: The 2019 analysis has been re-analysed to reflect the underwriting class monitoring structure introduced in 2020.
Note 2: 'Discontinued Underwriting' represents lines of business in run-off.
Note 3: 'Other Underwriting' comprises the Group's special purpose vehicles and Brit's share of Syndicate 2988.

Gross written premium (GWP) increased by 5.7% to US$2,424.4m (2019: US$2,293.5m). At constant exchange rates, the increase was 5.6%. London Market Direct business increased by 3.7% to US$1,411.6m (2019: US$1,361.7m), London Market Reinsurance increased by 12.1% to US$479.2m (2019: US$427.5m), Overseas Distribution decreased by 5.3% to US$437.6m (2019: US$462.0m) and Other Underwriting increased by 192.6% to US$91.0m (2019: US$31.1m).

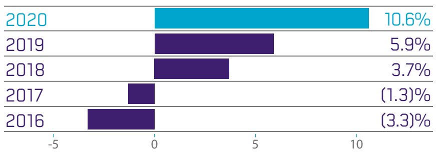
financial performance review

The drivers of the increase in Group GWP, which was in line with expectations, are as follows:

- Current year premiums: Growth in our core London Market Direct (Specialty, Property, and Financial and Professional Liability) and Reinsurance classes (Property Treaty), reflected the strong rating environment and targeted growth as we capitalise on market opportunities. These increases were partially offset by reduced demand in certain classes due to the impact of COVID-19 related restrictions, our withdrawal from a number of underperforming classes, and the non-renewal of certain accounts due to poor performance or pricing inadequacy. Within Overseas Distribution, while there was an overall reduction in premium, increases were seen in targeted BGSU classes (Excess Casualty, Casualty RI US, Professional Liability, Cyber and General Liability) and in Scion.
- Prior year premium development: The book again experienced favourable development on prior years, but at a lower rate than in 2019. This resulted in a year-on-year reduction of US$23.5m.
- Foreign exchange: The impact of foreign exchange resulted in a US$1.7m year-on-year increase in premium, which reflects the movement during 2020 of the US dollar against a number of currencies in which the Group writes business.

Premium ratings

Measure	Commentary	Track record
Risk adjusted rate change	The risk adjusted rate change (RARC) shows whether premium rates are increasing, reflecting a hardening market, or decreasing, reflecting a softening market. A hardening market indicates increasing profitability. In 2020, we achieved a RARC of 10.6%, bringing the RARC since 1 January 2018 to 20.2%.	**Risk adjusted rate change** (%)

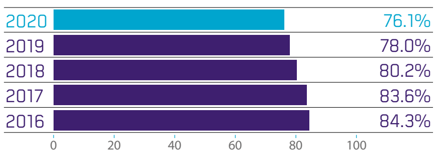


2020 saw a continued positive rate environment, building on that of 2019 and 2018, with an overall risk adjusted premium rate increase of 10.6% across the portfolio (2019: 5.9%), bringing the total increase since 1 January 2018 to +20.2%.

In 2020, London Direct increased by 10.7% (2019: 7.1%), London Reinsurance by 7.2% (2019: 2.4%) and Overseas Distribution by 14.6% (2019: 6.4%). All Divisions achieved rate increases, with the largest increases achieved in Property D&F, Marine Cargo, D&O and Excess Casualty.

Retention rates

Measure	Commentary	Track record
Retention rate	The retention rate shows the proportion of our business that renews, on a premium weighted basis, compared to the previous year.	**Retention rate** (%)



Our retention rate for the period was 76.1% (2019: 78.0%). The reduction reflects the continued action we have taken to improve our performance by discontinuing underperforming business lines.

Outwards reinsurance

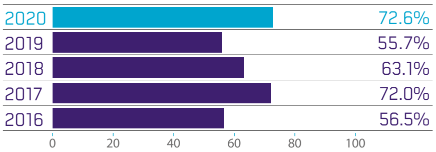
Our reinsurance expenditure in 2020 increased by US$11.5m to US$648.8m, but reduced as a proportion of GWP from 27.8% to 26.8%. This reflects our targeted reduction in ceded premium (predominately proportional treaties), as we focus on retaining a greater portion of our high-performing portfolios and those with significant rate increases.

Net earned premium

Net earned premium (NEP) in 2020, excluding the effects of foreign exchange on non-monetary items, increased by 4.6% to US$1,713.9m (2019: US$1,638.5m). At constant exchange rates, the increase was 4.5%. London Market Direct business increased by 6.1% to US$979.3m (2019: US$922.9m), London Market Reinsurance increased by 11.5% to US$338.5m (2019: US$303.6m), Overseas Distribution decreased by 3.2% to US$308.5m (2019: US$318.7m) and Other Underwriting increased by 16.8% to US$65.9m (2019: US$56.4m). These movements reflected the movements in GWP, together with the proportional reduction in reinsurance spend.

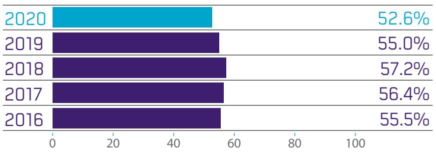
Claims

Measure	Commentary	Track record
Claims ratio	The claims ratio measures the performance of the whole underwriting book, encompassing risks written in the current year and in prior years.	**Claims ratio** (%)

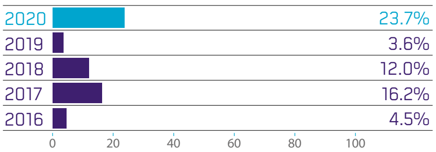


The claims ratio can be further analysed into its underlying components, as follows:

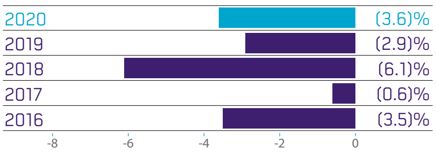
Measure	Commentary	Track record
Attritional loss ratio	The attritional loss ratio measures the performance of the underlying underwriting book by measuring the effect of attritional claims.	**Attritional loss ratio** (%)



Measure	Commentary	Track record
Major claims ratio	The major claims ratio measures the effect of claims arising from major losses on our performance. The 2020 ratio reflects the impact of COVID-19 related claims (15.9%) and other of major loss activity (7.8%).	**Major claims ratio** (%)



Measure	Commentary	Track record
Reserve release ratio	The reserve release ratio measures the performance of reserves held on the statement of financial position at the start of the year. A negative ratio indicates an overall net release, which means that prior year claims are performing better than estimated at the start of the year. A positive ratio indicates that over the course of the year, the amount required to meet those prior year claims has increased.	**Reserve release ratio** (%)



Our underlying claims performance in 2020 was strong, with a reduction in our attritional loss ratio to 52.6% (2019: 55.0%). This reflects favourable underlying claims experience across our London Market Direct portfolio (principally Programmes and Facilities, Property and Specialty) and the effect of strong compound rate increases, combined with a change in mix as we target growth on our high-performing segments while taking remedial action on more marginal business.

The financial impact of COVID-19 on Brit has been significant, with a loss estimate of US$270.7m being reported within Major Losses in the period. COVID-19 has predominantly impacted our Contingency (Event Cancellation) and Casualty Treaty books, with a smaller impact on Property, Property Treaty and Personal Accident. These losses have driven an increase of 15.9pps in our combined ratio.

financial performance review

Non-COVID-19 related catastrophe activity was again significant, with 2020 being the fifth most costly year on record to the industry. The Group incurred major claims, before reinstatement premiums, of US$132.5m, or 7.8pps of the combined ratio (2019: US$58.4m/3.6%), as set out below. Major losses are defined as claims which are initially assessed as having the potential to exceed US$15.0m (net of reinsurance and allowing for reinstatements), incurred from natural or man-made catastrophes, or from large single risk loss events.

Major losses	**2020 US$m**	2019 US$m
Nashville Tornado	**13.7**	–
US Civil Unrest	**11.7**	–
Hurricane Laura	**65.4**	–
Hurricane Sally	**27.1**	–
Hurricane Zeta	**15.5**	–
Hurricane Dorian	**–**	24.3
Typhoon Faxai	**–**	12.5
Typhoon Hagibis	**–**	24.8
Total before COVID-19 related losses	**133.4**	61.6
COVID-19 related losses	**271.4**	–
Total before third-party investors' share	**404.8**	61.6
Third-party investors' share (Note 1)	**(1.6)**	(3.2)
Total	**403.2**	58.4
CoR	**23.7%**	3.6%

Note 1: Accounting rules require Brit to consolidate Sussex Capital and Versutus II which have third-party investors. This adjustment eliminates the third-party share of major losses which is included in the Group's consolidated income statement within 'gains on other financial liabilities'. Of this US$1.6m, US$0.7m is in respect of COVID-19 related losses and US$0.9m is in respect of other major losses.

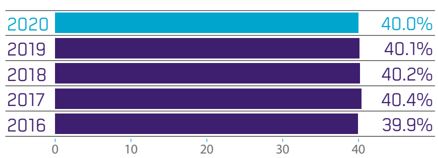
As part of our standard reserving process, we released US$61.5m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 3.6pps (2019: US$47.9m/2.9pps), maintaining our unbroken record of reserve releases since we started disclosing them in 2004.

The 2020 release reflected improvements in Brit's overall net estimates arising from the 2017 to 2019 major loss events, and favourable attritional development across our London Direct and London Reinsurance portfolios. These releases were partly offset by a strengthening in our Overseas Distribution portfolio, reflecting adverse attritional experience and inflationary pressures in certain BGSU classes.

Underwriting expenses

Our underwriting expense ratio was 40.0% (2019: 40.1%).

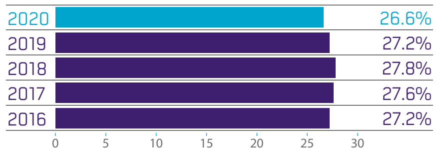
Measure	Commentary	Track record
Underwriting expense ratio	The underwriting expense ratio measures the cost we incur to acquire every US$1 of premium. There are two key components to this – commission costs and operating expenses.	**Underwriting expense ratio** (%)



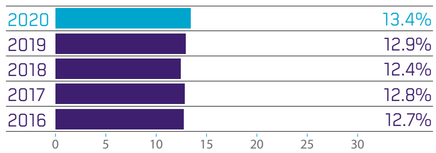
The underwriting expense ratio can be further analysed into its underlying components, as follows:

Measure	Commentary	Track record
Commission ratio	The commission ratio measures our distribution costs and shows how much of every US$1 of premium is paid to acquire our business.	**Commission ratio** (%)
Operating expense ratio	The operating expense ratio helps us understand how much it costs us to support the underwriting activities. This ratio shows how much of every US$1 of premium we spend supporting our underwriting activities.	**Operating expense ratio** (%)

Commission ratio (%)



Operating expense ratio (%)



Commission costs were US$454.3m and the commission expense ratio was 26.6% (2019: US$443.3m/27.2%). The decrease in the ratio principally reflects a change in business mix towards lower commission business, a drive to reduce overall acquisition costs and changes to our outwards reinsurance programme.

Our operating expenses are analysed below.

Expenses

Our operating expense ratio increased to 13.4% (2019: 12.9%). Operating expenses for the period were as follows:

Expense analysis	2020 US$m	2019 US$m
Underlying operating expenses including bonus provisions	**275.9**	275.3
Project costs, timing differences and other expense adjustments (Notes 1, 2)	**7.0**	1.1
Total operating expenses	**282.9**	276.4

Note 1: Timing differences relate to movement in deferred non-commission acquisition costs.
Note 2: Includes minority share of expenses incurred by consolidated vehicles, and expenses relating to non-controlling interests.

Underlying operating expenses during 2020 increased by US$0.6m to US$275.9m (2019: US$275.3m). This small increase relates to the consolidation of a full year of Ambridge expenses (consolidated from 18 April 2019), the consolidation of a proportion of Syndicate 2988 expenses following Brit providing a proportion of its capital for 2020, increased legal and professional charges and regulatory levies, partly offset by lower staff, travel and entertainment costs.

The allocation of operating expenses within the Consolidated Income Statement and the Segmental Information is as follows:

Disclosure of operating expenses	2020 US$m	2019 US$m
Acquisition costs	**145.4**	150.6
Other insurance related expenses	**113.9**	105.5
Total insurance related expenses	**259.3**	256.1
Other operating expenses	**23.6**	20.3
Total operating expenses	**282.9**	276.4

financial performance review

Other income

Other income totalled US$14.1m (2019: US$45.9m), as set out below:

Other income	2020 US$m	2019 US$m
Fee and commission income (Note 1)	**29.7**	45.6
Change in value of ultimate parent company shares (Note 2)	**(15.6)**	0.3
Total other income	**14.1**	45.9

Note 1: Total fee and commission income is included within our underwriting result and our combined and expense ratios.
Note 2: Change in value of ultimate parent company shares is included within our corporate result.

Fees and commissions generated by the Group's underwriting management activities have decreased in 2020, totalling US$29.7m, a reduction of 34.9% (2019: US$45.6m/increase of 225.7%). Included in the reduction were: US$15.9m in respect of the change in value of shares held by Brit in its ultimate parent, US$6.4m in respect of Brit's increased share of Syndicate 2988 resulting in less third-party income, and US$9.5m in respect of Ambridge, which experienced lower revenues in 2020 reflecting the reduction in corporate transactional activity resulting from the impact of COVID-19 and other factors such as Brexit uncertainty.

Losses on other financial liabilities

The statement of financial position of the Group includes liabilities representing third-party investors' share in structured undertakings consolidated by the Group. These structured undertakings are Sussex Capital, Versutus II and an equity UCITS. Changes in the value of these liabilities during a year are recorded in the Group's consolidated income statement as 'losses on other financial liabilities', as follows:

Losses on other financial liabilities	2020 US$m	2019 US$m
Underwriting vehicle related (Note 1)	**(6.0)**	(2.6)
Investment vehicle related (Note 2)	**–**	(7.9)
Total losses on other financial liabilities	**(6.0)**	(10.5)

Note 1: Allocated to the Group's underwriting and investment result as it represents the third-party share.
Note 2: Allocated to the Group's investment result as it represents the third-party share of the investment result.

Return on invested assets

The investment portfolio is managed, for the most part, by Hamblin Watsa Investment Counsel Limited, a Fairfax subsidiary with an excellent long-term track record, whose sole business is managing investment portfolios of Fairfax group companies. They are supported by a number of external managers across core fixed income and a small allocation to specialised credit.

The return on our invested assets was US$45.5m or 1.0% (2019: US$148.1m/3.6%). This result is analysed below:

Investment return	2020 US$m	2019 US$m
Income	**73.2**	87.3
Realised gains/(losses)	**7.5**	(51.9)
Unrealised (losses)/gains	**(11.6)**	134.8
Investment return before fees	**69.1**	170.2
Investment management fees	**(12.6)**	(11.7)
Investment return, net of fees	**56.5**	158.5
Investment related derivative return	**(13.9)**	(2.8)
Third-party investors' share of investment return (Note 1)	**0.9**	(7.9)
Return on associated undertakings	**2.0**	0.3
Total return	**45.5**	148.1
Total return	**1.0%**	3.6%

Note 1: This adjustment eliminates the amount included in 'Investment return, net of fees' which is attributable to third-party investors. This amount is included in the Group's consolidated income statement within 'Gains on other financial liabilities'.

Return on invested assets
(net of fees)

Year	%
2020	1.0
2019	3.6
2018	(2.0)
2017	4.9
2016	2.6

In March, the significant fall in yields, as the Federal Reserve delivered two emergency interest rate cuts totalling 150bps in response to the emerging economic impact of the COVID-19 pandemic, boosted our unrealised gains from fixed income to US$64.5m (2019: unrealised gains of US$22.4m). However, our total portfolio income return decreased to US$73.2m (2019: US$87.3m) due to the fall in yields. While we expect income returns going forward to be lower, we continue to seek opportunities to increase the yield on our portfolio where appropriate opportunities arise.

Following market sell-offs in the first quarter of 2020, our equity portfolio has recovered well. However, it has underperformed the broader market rally, due to its value bias. Realised and unrealised losses from equities for the year totalled US$48.8m (2019: gain of US$90.5m). The return on funds was also negative for the year, with a loss of US$32.8m (2019: loss of US$17.8m), the majority of which is unrealised.

The return on cash has reduced over the year, in line with the fall in interest rates. Our approach to cash management during the year has, and continues to be, to limit the amount of operational cash and to maximise amounts held within short-term government bills.

At 31 December 2020, the running yield (expressed as yield as a percentage of invested assets) of our total portfolio was 0.6% (2019: 1.5%). This has decreased over 2020 in line with the decrease in base rates and decline in the yield curve in the US and continues to represent a challenging environment for insurance groups.

Our share of our associated undertakings' net profit was US$2.0m (2019: US$0.3m).

- Camargue Underwriting Managers Proprietary Limited, a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa in which Brit holds a 50% share, contributed US$1.0m to this return (2019: US$0.6m);
- Sutton Special Risk Inc., a leading Canada-based managing general underwriter specialising in Accident & Health business in which Brit acquired a 49% share on 8 January 2019, also contributed US$1.0m (2019: US$0.7m) to this return; and
- In 2019, Ambridge Partners LLC contributed US$(1.0)m to the associated undertaking result. On 19 April 2019, Ambridge became a 100% subsidiary of the Group and ceased to be an associated undertaking.

Foreign exchange

As explained on page 39, we manage our currency exposures to mitigate the impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange gain of US$3.2m in 2020 (2019: gain of US$3.3m), reflecting the movement of the US dollar against other currencies in which we trade and hold assets. This total foreign exchange related gain comprised:

- An unrealised revaluation loss of US$12.4m (2019: gain of US$14.0m), relating to the retranslation of transactions and balances held in currencies other than US dollar. This includes the effect of movements in US dollar, which gave rise to a gain on our long positions on Canadian dollar, Euro and Sterling;
- Gains of US$12.8m (2019: losses of US$15.2m) on derivative contracts which were entered into to help manage our monetary FX exposures and therefore should be viewed in conjunction with our monetary FX movements; and
- Gains of US$2.8m (2019: gains of US$4.5m), as a result of the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates. This adjustment is essentially a timing difference. The adjustment for the full year 2020 comprises an increase in the debit carried on the statement of financial position at 31 December 2019 (US$2.0m).

financial performance review

The allocation of the FX result within the Consolidated Income Statement is as follows:

Foreign exchange gains and (losses)	2020 US$m	2019 US$m
Net change in unearned premium provision – non-monetary FX effect	**(3.2)**	3.4
Acquisition costs – non-monetary FX effect	**1.4**	(1.7)
Net foreign exchange gains – non-monetary (Note 1)	**4.6**	2.8
	2.8	4.5
Net foreign exchange (losses)/gains – monetary (Note 1)	**(12.4)**	14.0
Return on derivative contracts – FX related instruments (Note 2)	**12.8**	(15.2)
	0.4	(1.2)
Total gains	**3.2**	3.3

Note 1: The sum of these two amounts, US$7.8m, is the 'Net foreign exchange loss' figure per the Consolidated Income Statement (2019: US$16.8m 'Net foreign exchange gains').
Note 2: The 2019 figure excludes a gain of US$0.4m on a derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses, which is allocated to expenses.

Tax

Our tax on ordinary activities for 2020 resulted in a tax charge of US$1.5m (2019: tax charge of US$6.4m), based on a group loss before tax of US$230.5m (2019: profit before tax of US$186.3m).

The Group is liable to taxes on its corporate income in a number of jurisdictions where its companies carry on business, most notably the UK, Australia and the US. Corporate profits and losses in Bermuda are exempt from tax. The tax charge is calculated in each legal entity across the Group and then consolidated. Therefore, the Group effective rate is sensitive to the location of taxable profits and is a composite tax rate reflecting the mix of tax rates in those jurisdictions.

The 2020 Group rate varies from the weighted average rate in those jurisdictions due to a number of factors. The principal factors are an increase of US$41.5m in the unrecognised deferred tax asset in respect of undeclared Lloyd's syndicate years of account, and the impact of the change in the UK tax rate used for the calculation of deferred taxes, from 17% for brought forward balances to 19% for carried forward balances. The rate is further influenced by the impact of exempt income such as dividend income, disallowable expenses and by non-UK taxes arising in our Lloyd's syndicates.

financial position and capital strength

Financial position

At 31 December 2020, our adjusted net tangible assets totalled US$1,436.8m (2019: US$1,150.4m).

Summary consolidated statement of financial position

	2020 US$m	2019 US$m
Assets		
Intangible assets	**181.2**	192.6
Reinsurance contracts	**1,764.1**	1,628.1
Insurance and other receivables	**1,302.0**	1,240.2
Financial investments, investments in associated undertakings and cash	**4,852.8**	4,180.1
Assets classified as held for sale	**17.8**	–
Investment related derivatives	**4.3**	2.1
FX related derivatives	**10.6**	13.6
Other assets	**405.0**	415.9
Total assets	**8,537.8**	7,672.6
Liabilities		
Deferred tax on intangible assets	**25.4**	23.1
Insurance contracts	**5,813.0**	5,266.1
Borrowings	**314.5**	316.2
FX related derivatives	**9.2**	14.2
Other liabilities	**661.4**	733.1
Total liabilities	**6,823.5**	6,352.7
Net assets	**1,714.3**	1,319.9
Adjusted net tangible assets (Note 1)	**1,436.8**	1,150.4

Note 1: Calculated as net assets, less intangible assets net of the deferred tax liability on those intangible assets, less non-controlling interest.

Of our net assets of US$1,714.3m at 31 December 2020, US$1,592.6m (2019: US$1,319.9m) are attributable to the owners of Brit Limited, while US$121.7m (2019: nil) are attributable to non-controlling interests. The non-controlling interest represents the third-party investor in Ki Financial Limited.

In addition to the result recognised through the consolidated income statement, the other movements in our net assets related to defined benefit pension scheme related gains and charges (US$3.7m net loss); changes in unrealised foreign currency translation gains on foreign operations (US$2.3m gain); retained earnings on liquidation of subsidiaries (US$0.1m gain); issuance of share capital (US$524.0m); dividends paid (US$20.6m); and investment in a subsidiary by non-controlling interests (US$124.4m).

Capital strength

Our statement of financial position remains strong. At 31 December 2020, Group capital resources totalled US$1,881.3m, giving surplus management capital of US$341.0m (2019: US$348.9m), or 22.1% (2019: 28.4%) over our Group management capital requirement of US$1,540.3m.

Share capital

During 2020, FFHL Group Limited subscribed for 121,860,468 new Brit Limited class B shares for a contribution of US$524.0m.

On 28 August 2020, as per the Shareholder's Agreement, FFHL Group Ltd purchased the remaining 48,000,000 class A shares directly from OMERS, increasing its ownership of Brit to 100% (31 December 2019: 89.26%). All shares were then converted into class B shares.

Subordinated Notes Due 2030

Brit has in issue £135.0m subordinated debt (the Notes) which is listed on the London Stock Exchange. The Notes were issued in December 2005, were callable in whole by Brit on 9 December 2020 and mature in 2030. On 14 December 2020, Brit announced that it had determined not to exercise its call option to redeem the Notes, in accordance with Condition 7(b) of the Notes. It also announced that, in accordance with the terms of the Notes, the interest rate had been reset and was now 3.6757% (previously 6.625%).

Reserving policy

Preserving a strong financial position is critical to the long-term success of an insurance business. The Group maintains appropriate loss reserves to cover its estimated future liabilities. Reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The reserving process is robust and managed by the Chief Risk Officer and Chief Actuary and under the oversight of the Reserving Committee. Reserving estimates are prepared quarterly and are based on facts and circumstances then known, predictions of future developments, estimates of future trends in claims frequency and severity and other variable factors such as inflation. Movement in these reserves forms an integral element of our operating result.

Our reserving policy is to reserve to a 'conservative best estimate' and carry an explicit risk margin above that 'conservative best estimate'. This policy has led to a track record of modest annual reserve releases. In 2020, this trend, first reported in 2004, continued with net releases of US$61.5m (2019: US$47.9m).

At 31 December 2020, in accordance with our group accounting policy, we have also established an unexpired risk reserve (URR). This URR relates to COVID-19 related losses, and is required as the unearned premium reserve for specific classes on a year of account basis is insufficient to cover potential losses arising from the risk exposure still to earn through.

Maintaining reserves is critical to safeguard future obligations to policyholders and the 'conservative best estimate' approach provides a secure foundation. It also provides a secure foundation for the pricing of new business which is particularly critical in a soft rating environment.

financial position and capital strength

Asset allocation

Brit's invested assets (financial investments, investments in associates, cash and cash equivalents and derivative contracts) at 31 December 2020 were US$4,857.1m (31 December 2019: US$4,182.2m).

Our asset allocation, on both a look-through basis and statutory disclosure basis, is set out in the tables below:

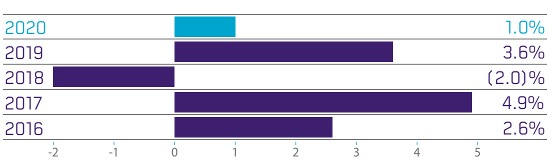
		Statutory basis							
31 December 2020		Equity securities US$m	Debt securities US$m	Loan instruments US$m	Specialised investment funds US$m	Cash and cash equivalents US$m	Associated undertakings US$m	Investment Derivatives (net) US$m	Total invested assets (look-through) US$m
Look-through basis	Government debt securities	**–**	**1,814.9**		**27.3**	**–**	**–**	**–**	**1,842.2**
	Corporate debt securities	**–**	**1,577.6**		**1.7**	**–**	**–**	**–**	**1,579.3**
	Structured products	**–**	**–**	**–**	**18.7**	**–**	**–**	**–**	**18.7**
	Loan instruments	**–**	**–**	**23.0**	**–**	**–**	**–**	**–**	**23.0**
	Equity securities	**376.7**	**–**	**–**	**212.5**	**–**	**20.5**	**–**	**609.7**
	Alternative investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	Cash and cash equivalents	**–**	**–**	**–**	**5.6**	**775.7**	**–**	**–**	**781.3**
	Investment related derivatives	**–**	**–**	**–**	**(1.4)**	**–**	**–**	**4.3**	**2.9**
Total invested assets (statutory)		**376.7**	**3,392.5**	**23.0**	**264.4**	**775.7**	**20.5**	**4.3**	**4,857.1**

31 December 2019		Equity securities US$m	Debt securities US$m	Loan instruments US$m	Specialised investment funds US$m	Cash and cash equivalents US$m	Associated undertakings US$m	Investment Derivatives (net) US$m	Total invested assets (look-through) US$m
Look-through basis	Government debt securities	–	1,611.8	–	9.7	–	–	–	1,621.5
	Corporate debt securities	–	1,339.2	–	2.2	–	–	–	1,341.4
	Structured products	–	0.1	–	18.2	–	–	–	18.3
	Loan instruments	–	–	–	–	–	–	–	–
	Equity securities	403.9	–	–	242.7	–	19.4	–	666.0
	Alternative investments	–	–	–	8.5	–	–	–	8.5
	Cash and cash equivalents	–	–	–	5.1	520.1	–	–	525.2
	Investment related derivatives	–	–	–	(0.8)	–	–	2.1	1.3
Total invested assets (statutory)		403.9	2,951.1	–	285.6	520.1	19.4	2.1	4,182.2

Invested assets – look-through basis (US$m)

- Government debt securities, US$1,842.2m
- Corporate debt securities, US$1,579.3m
- Structured products, US$18.7m
- Loan instruments, US$23.0m
- Equity securities, US$609.7m
- Cash and cash equivalents, US$781.3m
- Investment related derivatives, US$2.9m

Investment return (net of fees) (%)



We have extended the duration of our portfolio in 2020. This offers some protection for our solvency position against falling interest rates, while still protecting our assets from the potential of rising rates, as economies begin to reopen and the impact of the extensive government stimulus continues.

We also took the opportunity to increase our credit allocation when spreads widened in the first quarter of 2020, although the swift reversal resulted in less reinvestment opportunities for maturities in the second half of the year. The allocation to credit risk, is primarily defensive, focused, high quality, investment grade non-cyclical companies. Equity allocations are invested in a portfolio of both listed and private (non-listed) equities and funds.

The assets remain primarily invested in cash and fixed income securities (2020: US$4,202.8m or 86.5% of the portfolio; 2019: US$3,488.1m or 83.4% of the portfolio). The fixed income portfolio is short dated, with a majority allocation to government bills. Corporate bonds represent 32.5% (2019: 32.1%) of the total portfolio with 1.0pps (2019: 1.9pps) of this figure being below investment grade.

The exposure to equities and funds has fallen over 2020 (2020: US$628.4m or 12.9% of the portfolio; 2019: US$692.8m/16.6%), predominately due to market movements.

The duration of our portfolio at 31 December 2020 was 1.45 years (2019: 1.1 years), which is shorter than the duration of our liabilities. US rates fell significantly across the curve over 2020, as the US Federal Reserve delivered two emergency interest rate cuts totalling 150bps in March, in response to the emerging economic impact of the COVID-19.

At 31 December 2020, 83.7% of our invested assets were investment grade quality (2019: 81.1%). An analysis of the credit quality of our invested assets is set out below:

Invested assets by rating

	2020 %	2019 %
AAA	**37.9**	38.8
AA	**9.1**	8.3
A	**24.7**	21.1
BBB	**10.8**	12.2
P-1 and P-2	**1.2**	0.7
Other	**16.3**	18.9
Total	**100.0**	100.0

Other includes equities, funds and investment related derivatives

Gearing

At 31 December 2020, our gearing ratio was 28.0% (2019: 29.9%).

Brit has in place a US$450m revolving credit facility (RCF), expiring on 31 December 2023. Under our capital policy we have identified a maximum of US$250.0m (2019: US$250.0m) of this facility to form part of our capital resources, with the balance available for liquidity funding.

At 31 December 2020, the cash drawings on the facility were US$130.0m (2019: US$140.0m) and a US$130.0m uncollateralised letter of credit (LoC) was in place (31 December 2019: US$80.0m/uncollateralised) to support our underwriting activities. At the date of this report, cash drawings had reduced to US$93.0m and the US$130.0m uncollateralised LoC remained in place.

Ki Financial Ltd is party to a US$50m LoC facility to provide a proportion of the FAL for Syndicate 1618 through a segregated account of Sussex Re. This was fully utilised and uncollateralised at 31 December 2020.

In addition, we have in issue £135.0m of 3.6757% subordinated debt with a carrying value of £135.0m/ US$184.5m (31 December 2019: £133.0m/US$176.2m). This instrument, which is listed on the London Stock Exchange, was issued in December 2005, matures on 9 December 2030.

Foreign exchange management

At 31 December 2020, our US-dollar denominated net assets were 90.8% of our total net assets (2019: 85.6%), reflecting the currency denomination of the majority of the business we write. Our net assets, analysed by currency, are as follows:

Net assets/(liabilities) by currency

	2020 %	2019 %
US dollar	**90.8**	85.6
Sterling	**(1.9)**	8.4
Canadian dollar	**6.3**	4.1
Euro	**4.1**	1.5
Australian dollar	**0.7**	0.4
Total	**100.0**	100.0

The reporting currency for the Group's consolidated Financial Statements is US dollars, as are the functional and reporting currencies of a number of our subsidiaries, including all of our underwriting subsidiaries. A portion of our revenues and expenses, and assets and liabilities, are denominated in currencies other than US dollars, hence we are exposed to fluctuations in the values of those currencies against the US dollar. These fluctuations impact our reported operating results and our assets and liabilities.

We have sought to reduce the impact on our stakeholders of the effects of movements in foreign exchange rates by matching the currencies of our liabilities and capital requirements with the assets we hold. As a consequence of this, because we report our results in US dollars, we import some exchange rate volatility into the income statement through the revaluation of our net tangible assets. The Group's NTA is, however, largely matched against our capital requirement, protecting our shareholders against the risk of additional capital being required as a result of FX volatility. Any excess is held in US dollars.

principal risks and uncertainties

Risk Management Framework

Brit delivers shareholder value by actively seeking and accepting risk within agreed limits. Risk management at Brit is a continuous process that links directly to the organisation's business and risk management strategies and the associated Board risk tolerances.

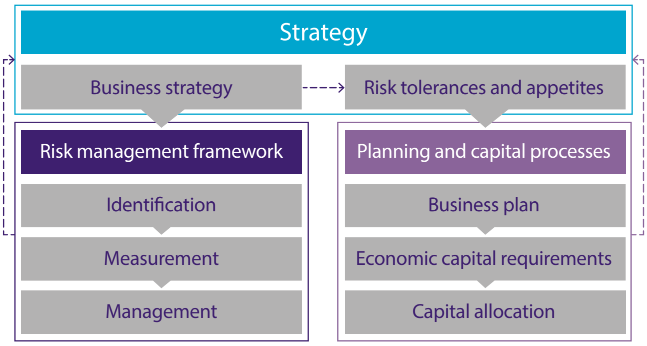
Brit's Risk Management Framework (RMF) applies a consistent methodology and structure to how risks are identified, measured, managed and monitored. This process enables us to protect policyholders and maximise shareholder value by ensuring the risk and capital implications of business strategy are well understood.

The RMF has the following key elements:

- **Identification:** Risk events, risks and relevant controls are identified and classified. This is a continuous process which considers any emerging and existing risks. The risk register sets out the significant risks faced by the business and identifies the potential impact and likelihood of each risk.
- **Measurement:** Risks are assessed and quantified and controls are evaluated. This is done through a combination of stochastic modelling techniques, stress and scenario analysis, 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.

A key part of the RMF is the setting of risk tolerances and risk appetite. Risk tolerances are set by the Board and represent the maximum amount of risk Brit is willing to accept to meet its strategic objectives. Risk appetite is set by management and reflects the maximum amount of risk that Brit wishes to take in the current market environment. The actual amount of risk taken is monitored against the tolerances and appetites on an ongoing basis.

The RMF, including the risk tolerances and appetite, reflects Brit's strategy and seeks to ensure that risk is accepted in the areas which are expected to maximise shareholder value whilst continuing to protect policyholders against extreme events. The process applies to both the Brit Group and to the individual underwriting entities (such as Lloyd's syndicates).



The risk management team, led by the Chief Risk Officer (CRO), monitors whether Brit is operating within the risk tolerance levels approved by the Board. This includes assessments of any new strategic initiatives and the principal risks and uncertainties faced by the business as detailed below.

All Brit staff are involved in ensuring there is an appropriate risk culture which promotes the identification and management of risk. Brit's risk culture aims to ensure the risk and capital implications of decisions are understood and there is open communication about risks and issues in all areas of the business.

Brit's approach to risk management is designed to encourage clear decision-making as to which risks Brit takes and how these are managed based on the potential strategic, commercial, financial, compliance and legal implications of these risks.

The sections below set out the approach to risk governance, and the key risks identified, measured and managed under the RMF.

Risk Governance

The Board is responsible for overseeing our risk management and internal control systems, which management is responsible for implementing.

Brit maintains a strong risk governance framework using Risk Oversight Committees and Audit Committees whose membership consists of independent non-executive Directors. The Board, Risk and Audit Committee agendas are designed to ensure all significant areas of risk are reported on and discussed. The Risk Oversight Committees monitor and review the risk profile and the effectiveness of all risk management activities and, in particular, monitor adherence to agreed risk limits.

Our Internal Audit function provides assurance to the Risk Oversight Committees, Audit Committees and Boards, while external experts are regularly used for independent assessments.

Brit operates a three lines of defence model for governing risk. Within the first line of defence individual risk committees monitor day-to-day risk control activities. The risk management function, as a second line of defence, provides oversight over business processes and sets out policies and procedures. Internal Audit, as a third line of defence, provides independent assurance and monitors the effectiveness of the risk management processes.

Key risks

The RMF categorises the risks to Brit as follows:

- Overarching risk: strategic, earnings and solvency; and
- Individual risk categories: insurance, market, liquidity, credit and operational and group.

Insurance risk is the key driver of our Group capital requirements.

The key risks and uncertainties are set out in the following table and the principal risks in the current environment are further described below.

Risk category	Risk	Description	Principal risks
Overarching	Strategic	Risk that Brit's strategy is not appropriate or is not implemented effectively.	
	Earnings	Unexpected earnings volatility leads to unexpected losses.	
	Solvency	Capital ratio falls below the level targeted by management.	
Insurance	Underwriting – pricing	Emerging experience is inconsistent with the assumptions and pricing models used.	✓
	Underwriting – natural catastrophe	Natural catastrophe events impacting Brit's (re)insureds, leading to large volumes of claims.	✓
	Underwriting – man made catastrophe	Extreme man-made events, such as terrorist attacks, impacting Brit's (re) insureds, leading to large volumes of claims.	
	Underwriting – reinsurance	Failure to obtain reinsurance on attractive terms, or failure to recover under reinsurance arrangements.	
	Reserving	Prior year reserves are insufficient to cover claims (net of reinsurance).	✓
Market	Investment market risk	Invested assets adversely affected by changes in economic variables, such as interest rates, bond yields, equity returns, credit spreads, credit ratings.	✓
	Currency	Exchange rate fluctuations materially impact our financial performance.	
Liquidity	Liquidity	Insufficient financial resources available to meet liabilities as they fall due.	
Credit	Counterparty risk	Deterioration in the creditworthiness of, defaults by, or reputational issues related to, premium debtors, reinsurers or other third parties with whom we transact business.	
Operational and group	People	Failure to attract, motivate and retain key Directors, senior underwriters, senior management and other key personnel, on whom our future success is substantially dependent.	✓
	Systems and processes	Failure of our systems or processes, impacting our ability to conduct business and our ability to provide continuity of service to our clients.	
	Information security	Failure to properly protect information could compromise the confidentiality, integrity or availability of our information and data, potentially resulting in financial loss and legal, regulatory and reputational consequences.	
	Outsourcing arrangements	Failure on the part of any third-party to perform agreed outsourced services, on which we are heavily reliant.	
	Reputational	Damage to reputation due to actions taken by Brit or related parties and the impact this has on Brit's business and operations.	
	Regulatory & legal	Legislation or regulation adversely affects Brit's operations.	
	Conduct	Failure to ensure company's products and services deliver the right outcomes for consumers.	
	Change management	Major projects or other key changes are not implemented effectively.	

principal risks and uncertainties

Principal risks

The table below provides additional information on the principal risks in the current environment and how we manage them.

Principal risk	Mitigation tools	Metrics	Status
Underwriting – pricing			
Inadequate pricing could have a material adverse effect on our results for underwriting operations and financial condition.	• Strategic focus on underwriting performance rather than on top line growth. • Strong governance processes around strategy and planning. • Pricing discipline is maintained through strict underwriting guidelines, monitoring of the delegated authorities and enforcement of the technical pricing framework. • Efficient use of the outwards reinsurance programme. • Monitoring of risk adjusted rate change.	Risk adjusted rate change (2020: increase of 10.6%; 2019: increase of 5.9%).	We have seen positive rate rises since 2018. However, these increases follow four years of rate reductions. Active rebalancing of the portfolio remains a key focus for management. Follow business only follows lead syndicates with a proven profitable track record.
Underwriting – natural catastrophe			
A catastrophic event or catastrophic events could result in large insured losses that adversely impact our financial results and potentially our capital position.	• Diverse portfolio of risks written between lines of business and geographic location. • Regular modelling and monitoring against the Board catastrophe risk appetite by our exposure management team. • Effective outwards reinsurance programme in place, with particular emphasis on managing accumulation of risks. • Clear limits set for key accumulations and conservative use of line size by our underwriters. • Identification and monitoring of emerging risks such as climate change.	Largest realistic disaster scenarios (1 October 2020 estimated loss in US$m): see table below	An aggregate catastrophe excess of loss cover is in place to protect the Group against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps, catastrophe bonds and industry loss warranties where they are a cost-efficient means to ensure that the Group remains within its catastrophe risk appetite.

Event	Gross	Net
Gulf of Mexico windstorm	1,001	148
Florida Miami windstorm	1,081	95
US North East windstorm	1,016	183
San Francisco earthquake	1,496	442
Japan earthquake	382	201
Japan windstorm	80	50
European windstorm	99	66

Principal risk	Mitigation tools	Metrics	Status
Reserving Estimating insurance reserves is inherently uncertain and, if insufficient, may have a material adverse effect on our results and financial condition.	• Conservative best estimate reserving philosophy with track record of releases. • Actuarial team recommend reserves independently from underwriting division using established actuarial techniques. • Independent external review of reserving is performed annually.	Reserve release ratio (2020: 3.6%; 2019: 2.9%).	Reserves are held at a 'conservative best estimate' and we also carry an explicit risk margin. No change in approach from prior years.
Investment risk Invested assets are susceptible to changes in economic conditions. A decrease in the value of our invested assets may have a material adverse effect on our results, financial condition and liquidity.	• Strong governance processes around investment strategy. • Regular monitoring against investment risk appetite which includes defined limits for solvency, earnings risk and liquidity risk. • Investment guidelines in place for individual asset classes and monitored regularly.	Return on invested assets, net of fees (2020: 1.0%; 2019: 3.6%). Running yield (2020: 0.6%; 2019: 1.5%).	Financial markets remain volatile following the COVID-19 pandemic. Although markets have partly recovered from significant falls in H1 2020, interest rates remain depressed given the economic outlook. Our portfolio remains highly liquid, and was primarily invested in cash and investment grade fixed income securities at 31 December 2020.
People We could be adversely affected by the loss of key employees or by an inability to attract and retain qualified personnel.	• Our remuneration strategy (including share-based remuneration) is designed to reward talent and success. We have a proven track record in being able to retain high-performing staff. • Succession and contingency plans are in place in the event of the loss of a key employee. • Regular monitoring of employee turnover and morale.	Staff turnover (2020: 10.5%; 2019: 10.1%).	The Group's key functions have continued to operate effectively despite the disruption caused by COVID-19 related measures. Feedback from brokers indicates Brit is performing well operationally relative to its competitors. The current environment remains competitive with a number of our peers actively seeking talented staff. We actively manage our remuneration and HR policies to ensure we continue to retain and attract the best staff. Current turnover rates remain well within our appetite.

principal risks and uncertainties

COVID-19 risk management

The 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, with our Contingency (Event Cancellation) and Casualty Treaty books being the most impacted. The pandemic has also caused significant volatility in the financial markets. Although investment markets have substantially recovered from significant falls experienced in H1 2020, interest rates remain at depressed levels given the economic outlook.

The Group has managed the risks associated with COVID-19 in line with the requirements of its risk management policies. Further details are provided below.

- **Operational risk**

  COVID-19 has caused a temporary shift from an office-based working environment to a remote working environment for all staff since 18 March 2020. Brit and its outsourced service providers have adapted well. Operational performance has generally been strong.

  All key business services have continued to operate with no material impact from COVID-19. The investment in 2019 in Microsoft Office 365 and the decision to rollout laptops to all full-time employees has made working remotely relatively seamless. Underwriting can be managed through PPL, Whitespace and reinsurance trading platforms, and underwriting and claims staff contact details are available online or via the Brit App. The Claims team continues to service our policyholders in these challenging circumstances.

  We immediately put in place support mechanisms for our employees and we continue to communicate regularly to ensure that people feel engaged and supported. We regularly monitor and report on the performance of controls and operational effectiveness. The ongoing monitoring of the operational risk profile has not identified any material concerns or failings.

  In 2020, Marsh and Lockton rated Brit the number one carrier for services provided in the London Market, while AJG ranked us third in the London Market and Aon ranked us third out of 34 carriers.

- **Insurance risk**

  COVID-19 has resulted in additional claims to the Group, principally relating to event cancellation covers. The Group has a rigorous process for establishing reserves for insurance claim liabilities, including those associated with COVID-19. However, significant uncertainties remain around loss estimates given that the pandemic is ongoing. We also continue to monitor the potential for claims arising indirectly from the pandemic. For example, due to the global recession which may lead to an increased risk of moral hazard, fraud and a more litigious environment generally.

  The underwriting portfolio is actively managed to reflect market developments, and action has been taken to ensure Brit is appropriately positioned for both the pandemic and the recessionary economic conditions. The Group is now applying communicable disease exclusions across the vast majority of its business.

- **Investment and Market risk**

  Financial markets have experienced volatility in 2020. The investment portfolio is actively managed to reflect market developments, and action was taken to ensure Brit's portfolio is appropriately positioned for the recessionary economic conditions and to take advantage of opportunities in asset prices where these arose. The volatility in investment returns experienced over the course of 2020 is within the range of stress and scenario tests carried out by the Group.

- **Credit risk**

  COVID-19 has caused economic disruption around the world with many businesses and individuals forced to cease business activity in light of government lockdowns. As at 31 December 2020, the Group has not seen a material increase in defaults but continues to monitor this closely.

- **Solvency and Liquidity risk**

  As at 31 December 2020, the Group held a surplus of US$341.0m over its management capital requirements. All regulatory capital requirements have been complied with by the Group's individual insurance subsidiaries throughout 2020. It should be noted that our regulatory capital requirements calculation as at 31 December 2020 included an allowance for the uncertainties associated with COVID-19 as described above.

  Brit continues to benefit from the support of the wider Fairfax Group, with capital contributions of US$524.0m provided during the year to largely strengthen the resilience of the statement of financial position to further shocks.

  Following the COVID-19 outbreak, the Group conducted stress testing of its underwriting subsidiaries' liquidity resources, in order to assess their ability to continue making claims payments as they fell due. This stress testing demonstrated their continued ability to access sufficient liquidity, even in severe stress scenarios. At 31 December 2020, the Group held US$2,623.5m of cash and short-dated government debt securities, and US$190.0m undrawn on its RCF.

  As part of the terms of the RCF, Brit is obliged to ensure that borrowings under the facility will not exceed 40% of consolidated net tangible assets (defined as the aggregate of the share capital of the company, the amount standing to the credit of the consolidated reserves of the Group and any financial indebtedness of the Group which is fully subordinated to the facility). At 31 December 2020 Brit was well within this threshold, with RCF drawings equating to 16.0% of consolidated net tangible assets (2019: 16.9%).

Emerging risks

Brit undertakes a formal emerging risk review annually with the results reported to the Risk Oversight Committees and included in Brit's Own Risk and Solvency Assessment (ORSA) and Commercial Insurer's Solvency Self-Assessment (CISSA) reports of the underwriting entities. The review is an important part of the risk identification aspect of the RMF and includes horizon scanning of the internal and external risk environment to identify potential new or developing risks to Brit. These risks can then be included in the risk register and managed appropriately as required.

The emerging risk review has previously identified risks such as the United Kingdom's exit from the EU (Brexit) and cyber risk. These risks have been managed throughout their development and are now monitored as part of the business as usual risk management process.

Climate change related financial risks

Climate change has been recognised as an emerging risk in the ORSA since 2014 and has been an area of focus since having been identified as a high priority by Brit's 2018 emerging risks analysis. Its potential impact on the insurance industry is an area of focus for the wider insurance market and its regulators.

The financial risks to insurers may include the potential for increased frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. This year has seen the most active Atlantic hurricane season on record, with 30 named storms being recorded. Of these 12 made landfall in the US, six of which were category three hurricane strength or higher, both statistics either equalling or setting new records. 2020 was also a record year for wildfires, with California seeing its first ever 'gigafire', a blaze that burns at least a million acres of land.

Climate change specific tests and scenarios have been included in both ORSAs and Brit's Solvency II internal models.

Brit is managing the risks associated with climate change in line with the RMF and is embracing the latest regulatory guidance. This will continue to be an area of management, Risk Committee and Board focus, with a multi-disciplinary Climate Change Risk Working Party having been set up to consider the financial risks associated with climate change.

The three main areas of risk identified for Brit are natural catastrophes, liability claims and investment losses:

- **Natural catastrophe risks** relating to climate change are the risk of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims to Brit. We continuously monitor scientific studies, regularly review the completeness of existing models and the application of the Brit view of risk. Brit's exposure to natural catastrophe risks is monitored on an ongoing basis by the Risk Management Function.
- Climate change could result in additional **liability claims**. For example, there is the potential for claims against firms for their contribution to climate change. While such claims have not generally been successful to date, there remains an ongoing risk. Brit's exposure is limited through limits on gross underwriting exposure and through the purchase of reinsurance.
- **Investment losses** have the potential to arise from exposure to industries perceived to be contributing to climate change. Brit has a diversified investment portfolio, with limits on exposure to individual issuers. Brit is developing metrics to strengthen its understanding of the potential impacts of climate change on its investments.

Brit also actively considers the potential implications of climate change and sustainability on its investment and underwriting strategies, how it should engage more widely on environmental and ethical issues, and its own sustainability initiatives. These are further discussed on page 49.

United Kingdom's exit from the EU (Brexit)

We have continued to work to minimise the impact of Brexit on Brit and our clients. While direct European business is not material for Brit, we have continued to monitor and evaluate the associated risks.

Our new processes are operational and we commenced writing business via Lloyd's Brussels in the fourth quarter of 2018, for risks incepting on or after 1 January 2019.

Brit notes the Trade and Cooperation Agreement (TCA) between the UK and the EU, which governs the UK and EU's economic and trading relationship from 1 January 2021. Brit also notes the areas on which further agreement still needs to be reached, including financial services and data adequacy.

The main risk to Brit was the ability to service historical policies with EEA claims. However, the successful completion in December 2020 of the transfer to Lloyd's Insurance Company S.A. (LIC) of Syndicate 2987's and Syndicate 2988's European liabilities in accordance with Part VII of the Financial Services and Markets Act 2000, provides a mechanism to address this risk. This transfer was sanctioned by the High Court on 25 November 2020 and took effect on 30 December 2020, whereupon all relevant policies (and related liabilities) underwritten by the Group's syndicates for years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance) were transferred to LIC. On the same date, a 100% Quota Share Reinsurance Agreement was entered into, whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the syndicates that wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account. The combined effect of the two transactions has no economic impact for the Group.

our people, culture, social, community and environmental matters

Introduction

To generate value, we recognise that our people, culture, social and community strategies must be both sustainable and aligned to the long-term interests of all our stakeholders. We seek to make both a positive contribution to society and to be aware of the long-term consequences of our actions. We also seek to generate new commercial opportunities by developing strong stakeholder relationships and by recruiting and retaining a highly skilled, engaged and motivated workforce.

Our people and culture

Our people are our greatest asset and managing our talent appropriately contributes significantly to our success.

During 2020 we continued to strengthen our highly committed team. Through the attraction and recruitment of new talent and the ongoing development of existing expertise, we continued to embed a culture of achievement in the organisation. This has resulted in employees feeling valued for their contribution as part of a team working towards the same goals.

Our culture is communicated and lived through an established framework that identifies and rewards strong performance. Business plan goals are aligned to our Group vision and used to determine individuals' objectives, ensuring that all employees understand the part they play in the Group's success.

We are committed to developing the technical, behavioural, management and leadership skills required for our teams to outperform – both individually and collectively. We continue to invest in the future of Brit through our leadership, graduate and intern programmes and succession and talent mapping exercises, all of which aim to grow expertise from within and ensure robust succession plans.

Our offices have been shut for the majority of 2020 due to the COVID-19 pandemic, with our people working remotely. To support them we have run a number of development activities for all staff, designed to help managers lead their teams remotely, help individuals maximise their learning and performance opportunities while working from home, and to ensure we are retaining and protecting our culture.

Mental health awareness has been a key focus through 2020. We have three fully trained Mental Health First Aiders and have provided all managers with two mental health awareness training sessions. All employees have access to e-learning modules as well as support through our Employee Assistant Programme.

Brit Syndicates Limited has Chartered Insurer status through the Chartered Insurance Institute. This prestigious designation signifies to our customers – and the market – that we are committed to the pursuit of the highest standards and demonstrates our adherence to ethical good practice.

Brit's cross-functional Social Committee has continued to organise a range of social, community and charitable events for employees during the year.

The 2020 staff turnover rate excluding retirements and redundancies was 10.5% (2019: 10.1%).

At 31 December 2020, 38.7% (2019: 37.1%) of staff had completed at least five years of service and 14.1% (2019: 15.2%) had served at least ten years.

Details of Brit's employment policies are given in the 'Employment' section of the Directors' Report on page 63.

Staff engagement

We want to engage with our employees and invest in their future so that they do not just progress, but thrive – both professionally, and emotionally. By developing and retaining a highly skilled, engaged and motivated workforce, we can generate value for them, the Company and our other stakeholders.

During 2020, with our people working remotely for most of the year, engagement has been more important than ever. As well as our usual engagement activities continuing in the virtual environment, a significant amount of additional engagement has taken place, focussing on staff wellbeing and the challenges we have all faced in 2020.

The Board principally engages with its workforce through its executive Directors. Brit believes in two-way communication between Directors, managers and all staff. It has a number of initiatives and processes designed to support and encourage this, including:

- An employee engagement survey, which takes place every two years across the Group. This is a key mechanism for assessing the views of our staff and leads to further engagement with them. The most recent engagement survey was held in late 2020. We had an excellent response rate of 89% and our overall engagement score increased by 7pps to 76%. The survey results were discussed at the executive level and then presented to all staff by the Chief Executive Officer. The findings were also presented to the Board. In the first quarter of 2021, we will be cascading the departmental results and each team will be encouraged to develop their own action plan to focus on their engagement priorities.
- Brit People Forum, focussing on inclusion and diversity, was launched in 2020. Further details are given in the inclusion and diversity section below.
- Executive Blogs – These blogs provide a useful medium through which the Executive Committee and other members of senior management can update employees on matters such as the Group's performance, initiatives and other developments, charitable activities and market

conditions. All employees are encouraged to respond with a question or comment to help facilitate understanding and debate.

- Town Halls – Each month, a member of the Executive Committee presents on their area of focus. All staff are invited to these presentations, which are followed by questions and discussion. These presentations are recorded and made available to those unable to attend.
- Spotlight series – These in-depth interviews are circulated to all staff and are a way to highlight new initiatives and projects. Recent topics have included the engagement survey and a series highlighting cross functional staff moves.
- Team Meetings – At Brit, team meetings are encouraged both at a macro and micro level.
- Intranet – The Brit intranet site, relaunched during 2020, provides a central point of information, news and announcements to support working lives at Brit and provide access to tools and systems essential to people performing their roles.
- Email announcements – To communicate significant or high-profile news to all employees or groups of employees.
- In October 2020, Brit held its fourth annual 'Celebrate the Difference week', which provided a focus on individuals making a personal difference both to themselves and others. It concentrated on a variety of topics from overcoming adversity, coping with addiction, managing work and home balance and having a positive self-image. The various sessions, hosted by external specialists, were held virtually and were very well attended and well received.

Engagement with our staff allows us to assess the extent to which they are motivated. Such motivation contributes to the success of our organisation. Engagement also identifies areas we need to focus on to continue to develop staff motivation. High engagement results have a positive impact on our team performance and employee retention, our service quality (both internally and externally), and our overall business performance, ultimately benefitting all stakeholders.

Inclusion and Diversity (I&D)

At Brit we talk about 'writing the future' and to be able to do this we strive to ensure equal opportunity is part of how we conduct ourselves as a business and as a team. We continue to work hard on this topic. The simple message is that discrimination in all its forms will not be tolerated at Brit.

Advancing inclusion and diversity at Brit has been a priority for the Executive Committee for some time, and in 2020 we have continued to make progress.

- Working with an external consultancy, we completed work on our I&D maturity index and our progress towards total inclusion. Following five internal I&D focus groups, Brit has been benchmarked based on 100 companies to highlight where we need to improve and to showcase what best practice looks like.
- Following this, in July 2020 we launched the Brit People Forum. The Forum signals our intention and commitment to developing and nurturing an inclusive culture within our organisation. It will provide the opportunity for us to come together and learn from the personal stories of the widest spectrum of the Brit community and make inclusion and diversity 'business as usual' for Brit. The Forum is made up of a group of volunteers and has the following outcomes in mind:
  - **Inspire:** get up to speed on what the inclusion and diversity landscape looks like, and Brit's unique role in shaping the future;
  - **Listen and engage:** open the floor to the real experiences of the Brit team as well as hearing from expert external speakers to shed new light on important topics; and
  - **Act:** use this as an opportunity to make continuous improvements to how we work at Brit, ensuring we're always striving to be better.

  The Forum looks at a number of focus areas – from race and identity, to what it means to have an invisible disability. For each focus area, a selected group is steering the agenda and leading the way.
- We have held a number of lectures and events in 2020, to help celebrate all minorities and promote the message that we welcome diversity and denounce all forms of discrimination.
- We became silver sponsors of the African Caribbean Insurance Network (www.theacin.co.uk) which was formed to boost black and minority ethnic representation within the insurance industry by making the insurance sector a more attractive destination for young ethnic professionals.
- Brit has also signed up to the Business in the Community (BITC) Race at Work Charter.

I&D remains a priority at Brit and we look forward to continuing our journey in 2021.

Social and community

We are committed to supporting the communities in which we operate and charities that are meaningful to 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.

Following a gift of US$200k from our ultimate parent, Fairfax, for COVID-19 related charitable purposes, we donated £100k to The Captain Tom Foundation (www.captaintom.org) as founder donor. The Captain Tom Foundation supports causes which help combat loneliness, support hospices and help those facing bereavement across the UK, including The Royal British Legion, MIND, Willen Hospice and Helen & Douglas House. The remainder of the money was split between four further charities: Childline (www.childline.org.uk), Compudopt (www.compudopt.org), Refuge (www.refuge.org.uk), and The Silverline (www.thesilverline.org.uk).

During 2020 we again supported ten charities chosen by employees. The charities selected for 2020 were SWAN UK, Stroke Association, Lakeview Pantry, Dogs on the Streets, Ignite the Spirit, Friends of Essex and London Homeless, Hospice UK, Hand Of and The Ocean Cleanup. We donated a sum of money to each charity at the start of the year and continued with fundraising activities through the year, including an additional payment at the start of the COVID-19 pandemic to recognise that many of their fundraising activities had been cancelled. A further ten staff-nominated charities have been selected to receive our support in 2021.

Our Social Committee also organised a number of volunteering days in the local community. We further promote staff involvement in the community by granting every employee two additional days of paid leave a year to volunteer their time to a registered local charity.

In 2020 we continued our support for a school that educates boys and girls from the age of five to 18 in Kibera, the largest slum in Africa. The school does not discriminate between religion or tribal allegiance but instead believes in its motto that 'knowledge is power'. A group of Brit employees were able to volunteer at the school in February 2020 and we look forward to continuing our support in 2021.

We have supported Team BRIT, a team of disabled motor racing drivers, since 2017. In 2020, we continued our contract with Team BRIT, as title sponsor, allowing them to launch their racing academy. This has allowed it to successfully offer any disabled driver the opportunity to access expert tuition and coaching, to allow them to gain a race licence.

In July 2019 we announced that we were delighted to be supporting Great Ormond Street Hospital (GOSH) as one of our chosen corporate charities. GOSH is a world leading children's hospital based in London. In 2020, Brit employees helped raise funds for GOSH and we now sponsor a treatment room on one of their wards.

Following the killing of George Floyd in Minnesota we took some time to reflect and listen to each other as individuals, teams and as a business. We raised over US$14k for the National Urban League (https://nul.org), a charity that supports education, jobs, housing, healthcare and a range of social justice issues.

We also run a payroll giving scheme and match any money raised by employees participating in charitable events.

During 2020, Brit donated US$1.1m (2019: US$0.6m) under its charitable initiatives. In addition to this, Brit employees completed 69 volunteering days (2019: 104 days).

Environmental responsibility

Governance

Brit has been operating an internal 'Sustainability and Ethical Business Forum' (SEB) to agree strategy and actions around sustainability and ethical business since 2019. We are aware of the importance of Environmental, Social and Corporate Governance (ESG) matters, and the benefits a clear strategy can bring to a business, especially when addressing the risks and opportunities associated with climate change.

The Board receives regular updates on the activities of the SEB and Brit's progress on its sustainability journey. It also receives periodic sustainability related training.

Strategy

The SEB oversees the development and implementation of the Group's sustainability strategy, as follows:

- **External engagement**

  Brit continues to develop its strategy by engaging with experts, reviewing external reports and monitoring external developments. A number of internal sustainability initiatives have been launched, including partnering with ClimateCare to offset carbon emissions from employees' air travel, exploring energy saving techniques and reviewing waste monitoring and management. Additionally, externally, Brit has worked with the LifeStraw project to help bring safe drinking water to over four million people in Kenya and more environmentally friendly cookstoves to people in Africa.

  Brit actively participates in a number of external initiatives. This includes membership of ClimateWise, IceBreaker One and Chapter Zero, as well as engagement with Lloyd's and other London Market businesses.

  We are also working with an experienced sustainability consulting firm to refine our framework and define a roadmap for future activities.

- **Underwriting strategy**

  Brit is engaging with a number of ESG data providers and is assessing their product offerings. While we undertake this selection process, this workstream is focussing raising underwriter awareness and approach, so they can ensure our clients operate in line with our own ethos. It also engages with the underwriting leadership around the strategic product offerings, such as renewable energy within our Energy class.

our people, culture, social, community and environmental matters

- **Investment strategy**

  We are integrating ESG considerations into our investment guidelines, our mandates with external managers and our reporting. Our investment approach recognises wider environmental, social and governance risks within the investment process, and considers the potential for economic loss arising from these factors, including the impact of climate change. Our investment approach also considers potential opportunities created by these factors.

- **Managing Brit's own environmental impact**

  At Brit we take our environmental responsibilities very seriously and continually seek to improve the sustainability of our business. In 2020, we have continued with our initiative to offset all our carbon emissions through ClimateCare (www.climatecare.org). For every tonne of carbon generated we fund the equivalent reduction through ClimateCare's carbon reduction projects – neutralising our impact and helping to address climate change. For 2020, we have purchased further tonnage to offset additional emissions generated by our employees while working from home. At 31 December 2020 we remained fully Energy Saving Opportunities Scheme (ESOS) compliant.

Risk management

The Group's approach to managing climate change related financial risks is set out on page 45.

Metrics

Our offices closed on 18 March 2020, as we followed government advise on the outbreak of COVID-19. As a result, our consumption of materials has been significantly reduced compared to 2019, as have levels of business travel.

We continue strive to reduce the levels of recyclable and non-recyclable waste we generate. During 2020 we recycled 4.5 tonnes of paper waste (2019: 7.6 tonnes) and we sent 3.6 tonnes of general waste to energy recycling (2019: 16.6 tonnes). In 2020, we also recycled 0.3 tonnes of glass (2019: 1.4 tonnes), 1.6 tonnes of cardboard (2019: 5.1 tonnes) and no food waste (2019: 0.2 tonnes). During 2020, in conjunction with our building managers, we continued to work hard to reduce waste sent to landfill.

We continue to use a business dining and internal hospitality provider that is committed to the principles of sustainable food procurement. It recognises that it is important to the future wellbeing of the UK that farming communities are supported and able to contribute to their supply chains.

We measure and monitor our carbon footprint. In 2020 our carbon emissions per employee before offset were 2.4 tonnes (2019: 7.1 tonnes), which reduced significantly after offset to a negative 2.1 tonnes per employee (2019: positive 0.6 tonnes). The negative figure reflects our purchase of further tonnage to offset additional emissions generated by our employees while working from home in 2020. The sources of these emissions were as follows:

Emission source	2020 CO2 (tonnes)	2019 CO2 (tonnes)
Gas (note 1)	**339**	357
Electricity (note 1)	**511**	385
Business travel – air (note 2)	**959**	3,862
Business travel – hotels (note 2)	**20**	–
Business travel – other (note 2)	**–**	5
Total carbon footprint before offset	**1,829**	4,609
Offset	**(3,373)**	(4,220)
Total carbon footprint after offset	**(1,544)**	389
Number of employees at 31 December, excluding NEDs	**748**	645
Carbon footprint per employee before offset	**2.4**	7.1
Carbon footprint per employee after offset	**(2.1)**	0.6

Note 1: Where Brit operates out of offices which form part of a larger commercial development, usage and emission data has been supplied by the building manager. Where Brit operates out of serviced office suites, it has no control over the management of utilities, with that responsibility falling to the landlord. Such serviced accommodation is considered out of scope for this purpose.

Note 2: For all travel including air, hotels and rail, data has been provided from our travel agent partner, through whom all travel is arranged.

Brit's Streamlined Energy and Carbon Reporting (SECR) disclosures are as follows:

	2020	
	kWh	GHG (CO2 tonnes)
Scope 1 (note 3)	**1,047,392**	**271**
Scope 2 (note 4)	**881,308**	**409**
Scope 3 (note 5)	**–**	**–**
Total before offset	**1,928,700**	**680**
Per UK employee before offset	**3,242**	**1.1**

Note 1: The scope of table differs from the carbon emissions reported above, in that it only covers UK based operations, in accordance with SECR requirements for unlisted companies.

Note 2: Scope 2 includes gas purchased for consumption in Brit's UK office.

Note 3: Scope 3 includes electricity purchased for consumption in Brit's UK office.

Note 4: In 2020, Brit had de-minimis emissions from business travel in rental or employee-owned vehicles.

Note 5: Details of methodologies, efficiency actions and intensity metrics are given above.

stakeholder engagement

The Board recognises the importance of engaging with its broader stakeholder base. The Company's key stakeholders, as identified by the Board, are set out below, together with why and how we engage with them and the outcomes of that engagement. Engagement has continued and indeed been strengthened in 2020, with Brit's virtual engagement capabilities coming to the fore.

Clients and Intermediaries

Why we engage	Form of engagement	Impact of engagement
We care deeply about our clients' needs and work with brokers and partners to share expertise and deliver a seamless service for the end insured. As a specialty insurer, almost 100% of Brit's business is distributed via intermediaries. In London, the majority of this is via Lloyd's brokers and in BGSU via both wholesale and retail intermediaries. Engagement and building strong relationships with our intermediaries is crucial for us to source business and to deliver the best service and products for our insureds. Intermediaries also provide a range of services to Brit, for which we remunerate them via brokerage and commissions.	Intermediary engagement commences before any formal relationship is entered into, with a robust on-boarding governance process. Post on-boarding, Brit underwriters engage with intermediaries in a number of ways. During 2020 this has predominantly been via electronic means. To maximise our intermediary relationships, Brit has entered into strategic partnership agreements with six of our largest brokers, covering over 50% of our gross premium. Under these agreements Brit pays an annual fee, which gives access to a range of services including regular engagement and introductions, data provision and consultancy. All new and renewal agreements require full Board approval. In 2020, Ki has also onboarded its first trading partners, a leading group of Lloyd's brokers. It has agreed to provide valuable capacity to each trading partner in 2021, giving their clients immediate security about placing business in Lloyd's.	During 2020, Brit has received excellent feedback. Marsh and Lockton rated Brit the number one carrier for services provided in the London Market, while AJG ranked us third in the London Market and Aon ranked us third out of 34 carriers. By engaging with clients and intermediaries we provide a risk service that helps clients not only prepare for but manage and mitigate the risks they face. By building stronger and deeper relationships with our intermediaries, we believe we put ourselves in a stronger position to quickly take advantage of new opportunities and understand and satisfy changing customer needs. The data provided to us by brokers allows us to have more informed discussions and make more informed decisions. One of our key areas of focus is the management of acquisition costs. We are working with a number of our major broking partners to explore ways we can work together via digital platforms to reduce overall cost and improve efficiency for our mutual business models.
When a client has a claim, their life or business has been disrupted, or even put in peril, they expect their insurance to deliver. It is our responsibility to fulfil that commitment. At Brit, we do not treat claims as a process; we see every claim as an opportunity to help our clients move forward.	When a client has a claim we adopt a proactive approach. We engage directly with them or their intermediary to ensure their needs are met. Following a major loss event, we instigate additional measures including establishing 24/7 contact with claims administrators, extending deployment of Brit claims adjusters from London and swiftly establishing dedicated loss funds.	Engagement with our clients, intermediaries and other service providers after an event reinforces our provision of a risk service that helps people not only move on from an event but helps them to move forward rapidly with confidence.

stakeholder engagement

Reinsurers

Why we engage	Form of engagement	Impact of engagement
Brit purchases reinsurance to help manage risk, reduce volatility, enhance earnings, control aggregations and create capital efficiency. Brit's risk appetite is defined by its outwards reinsurance strategy and plan, which is approved as part of the annual business planning process. We also engage when we make recoveries under the cover we have purchased.	Brit uses its appointed brokers for the majority of reinsurer interactions, allowing us to benefit from their expertise. Brit also engages directly with reinsurers, such as when there is a need to achieve broader strategic aims which would involve more than one broker. These tend to be with our largest reinsurance counterparties.	This engagement allows Brit to access up to date market information and to access a broad range of reinsurance counterparties and reinsurance products, thereby managing its risk appetite in the most effective way. It also aids the administration of reinsurance products and may give Brit access to a range of advisory functions on contract wordings, financial modelling and ancillary functions. When we make recoveries, such engagement helps to expedite the recovery process.

Investment managers

Why we engage	Form of engagement	Impact of engagement
We are responsible for managing the assets which support our underwriting and ensure that clients' claims can be paid. We manage those assets with a long-term view and aim to maximise return while controlling the level of market risk. We implement our investment strategy using the expertise of investment managers, whose mandates are set out in investment management agreements (IMAs). We engage with our investment managers to monitor their performance and to ensure assets are managed within the restrictions set out in the IMAs. We also gain additional insights and expertise by engaging with investment managers.	We have regular discussions with our managers to monitor performance and assess the outlook for investment markets. We also receive regular written investment reports covering positioning, investment performance and outlook. We have regular and ad-hoc discussions with managers to review new investment opportunities and to assess their suitability for our portfolio. Investment managers regularly present to the Board and Investment Committee Board. We also perform annual due diligence meetings to review the operational aspects of the investment managers' processes.	Engaging with our investment managers allows us to ensure that the assets are managed within our risk tolerances and guidelines and that any changes are implemented in a timely fashion. We receive insights from our investment managers which enhances our investment strategy and performance. Engagement allows us to discuss potential new opportunities with our investment managers, adding diversification and resilience to our portfolio. Discussions also help us to understand their approach to environmental, social and governance issues, including climate risk and stranded assets, validating the sustainability of the portfolio. Our operational reviews confirm assets are managed robustly and controls the risk of fraud within the investment managers and other third parties.

Capital providers

Why we engage	Form of engagement	Impact of engagement
Working with third-party capital providers on Ki, Syndicate 2988 and Sussex creates the opportunity to increase Brit's leadership footprint and proposition to clients. It also leverages our operational infrastructure resulting in a more expense efficient model for both us and our capital providers. Engagement with third-party capital providers also supports our growth strategy for those vehicles.	Brit regularly engages with the third-party capital providers on Ki. It also engages with current and prospective third-party capital providers ahead of an underwriting year, to market the Syndicate 2988 and Sussex propositions and to understand investor appetite and capacity. After an underwriting year incepts, Brit formally meets each provider regularly to discuss performance, outlook and any other relevant matter. Ad-hoc queries and requests for information are also welcomed. Most interaction is via face-to-face discussion or by conference call.	The successful implementation of the Ki, Syndicate 2988 and Sussex strategies is dependent on developing strong relationships with third-party investors and institutions. Such engagement helps facilitate this. The insight we gain from our regular interactions and feedback helps Brit to ensure that our propositions can continuously evolve in line with investor appetite.

Regulators

Why we engage	Form of engagement	Impact of engagement
Regulators are key stakeholders for any regulated business and Brit's Board is pro-active in ensuring that Brit meets regulators' expectations around compliance, transparency and aligning the business with regulators' objectives. Brit engages with regulators to ensure that: • We understand their regulatory objectives and how they apply to Brit; • Regulators have a proper understanding of Brit's business model, strategy and risk appetite; • Regulators understand how Brit's business model, risk appetite and operational processes and controls are aligned to regulatory objectives.	Brit engages with its principal regulators through: • Regular meetings between supervisory teams, key decision-makers and authorised persons at Brit, including executive and non-executive Directors; • Sharing of key business updates and internal documents including board and committee papers to ensure regulators have a thorough understanding of Brit's business and the opportunity to ask questions about it; • Responding to thematic reviews and information requests as required; • Engaging with Lloyd's across the business including around business planning and compliance with Minimum Standards; • Ensuring the Board is kept up-to-date on regulatory matters as communicated by regulators.	Engagement with regulators impacts Brit through: • The Periodic Summary and Close and Continuous supervision approach by the PRA enables Brit to respond promptly to the PRA's regulatory concerns and areas of regulatory focus; • Engagement with regulators on thematic reviews and information requests enables Brit to contribute to regulators' understanding of how the market operates and best practice; • Brit's regular engagement with regulators enables it to pro-actively plan its response to areas of regulatory focus, e.g. operational resilience; • Engagement with regulators assists Brit to meet the prudential and conduct standards required by regulators; • Directors and employees understand their regulatory responsibilities.

stakeholder engagement

Key suppliers

Why we engage	Form of engagement	Impact of engagement
Supply chain integrity is a critical part of our business, as we rely on a number of key suppliers of goods and services to help us meet the needs of our customers and those of other stakeholders. On-going engagement with such suppliers helps us ensure that those needs are met and ensures that the standards set by those suppliers meet Brit's criteria. Such suppliers include providers of IT systems, claims management, professional services, facilities and travel providers.	Brit determines the risk of the potential engagement by investigating the potential spend value, criticality of the services to be provided and personal information to be shared between parties. Brit has strong partnerships with a number of critical suppliers. These partnerships are fostered by a range of activities including ongoing dialogue and meetings at both executive and function owner level. We also engage with key suppliers in areas such as technical and product roadmaps, integration planning and disaster recovery. Brit also has a rigorous on-boarding process for new suppliers.	Such supplier engagement enables us to: • Provide a better service to and satisfy the needs of our customers and other stakeholders; • Enhance current operational processes, leading to better efficiencies and increased competitive advantage in the marketplace; • Comply with appropriate laws and regulations, by implementing suitable controls and measures; • Improve the Company's technological resilience; and • Ensure the robustness and integrity of our suppliers, such as their compliance with the Modern Slavery Act 2015.

Members

Why we engage	Form of engagement	Impact of engagement
Brit Limited's 100% ultimate shareholder is Fairfax Financial Holdings Limited (FFHL). Our aim is to provide long term sustainable value for our shareholders. Engagement ensures that our objectives are aligned and that our strategy, operating environment and performance are clearly understood.	Brit's ultimate shareholder is represented on the Brit Limited board and there is regular contact between Brit executives and senior management and those of our shareholder.	This engagement helps ensure that Brit's strategy is aligned to and supported by our shareholder. Such engagement also presents us with underwriting and investment opportunities, and can result in favourable collaboration with other members of the Fairfax Group.

section 172(1) statement

Introduction

The Brit Limited Directors' key responsibility is to promote the success of the Company. This principle is embodied in the Board's terms of reference and is the cornerstone of their discussions and decision making. Each Director is cognisant that in discharging this key responsibility, they must have regard to:

- The likely consequences of any decisions in the long-term;
- The interests of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between shareholders of the Company.

The Directors of Brit Limited consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act).

The Board's approach to section 172(1) and decision making

The Board's terms of reference, which are reviewed annually, clearly articulate the Board's responsibilities, the role of the Chair and matters reserved for the Board. They also set out which of the Board's powers and responsibilities may be delegated to other committees and the governance mechanisms by which the Board monitors those committees' activities and performance. The Chair ensures that these terms of reference are adhered to and, by doing so, ensures that Directors have due regard for all appropriate factors during the decision-making process.

Our strategy

The Board is responsible for a number of key strategic decisions, including approving the business plans, objectives and strategy of the Company. It is also responsible for conduct risk strategy and appetite, for recommending dividends and for setting dividend policy.

The Company's strategy and business plans are approved annually by the Board. The Board also assesses how the strategy underpins long-term value creation by discussing and approving a three-year plan. Such matters are also discussed at the Group's annual strategy review and planning day, in which the Directors of the Company and its principal subsidiaries participate. On-going performance is discussed and monitored at Board meetings.

The Directors' assessment of long-term value creation also considers the Company's resilience. The Directors determine and monitor underwriting, reserving, business, operational, credit, market and liquidity risk appetites and tolerances. They ensure the Company has an effective risk management framework in place, approve its conduct risk strategy and appetite.

Board information

The Board receives regular information on a range of relevant topics, and receives information on other areas as requested by the Directors from time to time.

During 2020, the Board has received and discussed regular comprehensive updates on the impact of COVID-19. These updates have included a general update on the pandemic, its impact on financial and capital markets, and the impact on Lloyd's and the wider insurance market. It also included an overview of key developments at Brit, an update from each key functional area, scenario analysis and an assessment of key risks.

The Board receives regular formal reports on the operations and performance of the Company from the Group Chief Executive Officer and the Group Chief Financial Officer. The Board also receives regular reports from the chairs of the committees of the Board such as the Audit Committee, Remuneration Committee and Nomination Committee, and from the chairs of its principal subsidiaries' boards including those of Brit Syndicates Limited and Brit Reinsurance (Bermuda) Limited. It also receives the minutes of meetings of these bodies. Each of these reports provides an update on areas necessary to help the Directors promote the success of Brit Limited.

In addition, the Board receives and considers a number of annual reports, such as the 'Whistleblowing Annual Report'.

From time to time the Board receives detailed reports on specific areas for it to consider. During 2020, such reports included a 'Group Capital Update' and a 'Group Investment Update'.

Our policies and practices

All relevant factors are appropriately addressed by the Board when considering matters reserved for it, as set out in its terms of reference.

The Board also ensures that appropriate consideration is given to relevant factors by the committees to which it delegates responsibilities. The Board reviews the terms of reference of such committees on an annual basis, and receives regular updates and reports from those committees' chairs.

The Board also reviews the Company's key policies on an annual basis, ensuring that all relevant considerations to assist it discharge its responsibilities are embedded in the key operations of the business. These policies help to promote the long-term success of the Company by focusing on areas such as the key operations of the Company.

The Board reviews its key stakeholder map on an annual basis. New key stakeholder relationships are identified through information received and considered by the Board

Section 172(1) Statement

on a regular basis, or through the Board's consideration and approval of substantial contracts and commitments.

Training

To assist the Directors discharge their responsibilities, they are provided with on-going training and development opportunities. They have received a number of in-depth briefings on specific relevant issues.

For the wider workforce, there is a comprehensive staff development programme tailored to meet individual needs. Elements of this training are mandatory, with all staff required to successfully complete e-learning modules on key areas such as money laundering, bribery and corruption, data protection, fraud and cyber risk.

Our culture

Building and maintaining the Company's reputation and its high standards of business conduct are essential to the future success of the Company. This is embedded in our culture.

In October 2019, we launched our new brand purpose. Our brand purpose informs everything we do, from how we communicate, to how we develop and deliver our services, to how we work together. Our purpose informs our core philosophies, which are set out on page 11.

The Company also maintains a 'Code of Conduct' setting out the standard we expect from all of our staff. This is regularly reviewed and updated, and compliance is attested to by each employee on an annual basis.

Our people

Our people are key to our success. How we engage with them and how we invest in them is set out on pages 47 to 50.

Our stakeholders

The Board recognises the importance of engaging with its broader stakeholder base. The Company's key stakeholders, as identified by the Board, are set out on pages 51 to 54, together with why and how we engage with them and the outcomes of that engagement.

Community and environment

The Board recognises the importance of not only generating value for shareholders but also to contribute to wider society. We do this through a number of initiatives, as set out on pages 48-49. We also monitor and manage our environmental impact, as set out on pages 49 to 50.

Key decisions made by the Directors during the year

Dividends and share issues
On 9 April, the Board approved a dividend payment of US$20.6m to Brit's minority shareholder, OMERS.

During 2020, the Board agreed to a number of new share issues. These issues totalled 121,860,468 class B shares, which were acquired by Fairfax for a contribution of US$524.0m.

In considering these decisions, the Directors assessed Brit's ongoing underwriting strategy and capital requirements, the impact of COVID-19 on Brit's underwriting and investment performance, and its obligation to act fairly between members. It was mindful of its agreed obligations to its minority shareholder and to its majority shareholder, Fairfax, whose ownership of Brit increased from 89.3% to 100.0% during the year.

2019 financial statements and reserving position
The Directors approved the financial statements for the year ended 31 December 2019, on 12 February 2020. As part of this process, the Directors considered and approved the claims reserves held by the Group's underwriting entities.

In considering these key factors and in approving the final reserving position, the Directors were mindful of the importance of maintaining the Group's policy of reserving on a conservative best estimate basis. This policy provides robust security to our policyholders, while ensuring the long-term financial strength of the Group, thereby protecting the interests of our key stakeholders including our clients, members and employees.

Subordinated debt – call decision
Brit has in issue £135.0m subordinated debt (the Notes) which is listed on the London Stock Exchange and mature in 2030. The Notes were callable in whole on 9 December 2020. On 14 December 2020, Brit announced that it had determined not to exercise its call option to redeem the Notes.

In arriving at this decision, the Directors considered the interests and views of its shareholder. The Board concluded that maintaining this source of capital was in the best interests of Brit and its shareholder.

Ki Financial Limited
In 2020, the Board approved the formation of, and an investment in, Ki Financial Limited.

The Board considered Brit's immediate and longer-term strategic priorities, as well as the interests of its shareholder, and other stakeholders, including Lloyd's and the wider market. It concluded that opportunities presented by this initiative would position the Group and other stakeholders well for the longer term.

Sale of Commonwealth Insurance Company of America (CICA)
During 2020, the Board approved the sale of the Group's US admitted carrier, CICA. The transaction completed on 5 February 2021 for a consideration of US$19.7m.

In arriving at this decision, the Board considered Brit's immediate and longer-term strategic priorities and the interests of its stakeholders. The Board concluded that the sale and redeployment of capital to support other opportunities was aligned to the Group's strategic objectives.

2021 business plan and capital requirements
The Directors reviewed and approved the 2021 business plan. The plan included the Group's underwriting and investment strategy, together with the capital needed to support the plan.

The Directors considered the Company's immediate and longer-term strategic priorities, together with the risks facing the business. They also considered the needs and expectations of the Company's shareholders, the interest of its clients and employees, and those of the wider stakeholder group. After due discussion, the Directors concluded that the plans and attaching capital requirements positioned the Company well for 2021 and the longer term.

Approval of policies
During 2020, the Directors reviewed and approved the Company's key policies, including the Whistleblowing Policy and the Financial Crime Policy.

In approving these policies, the Directors considered whether they support the strategic aims of the Company, and whether all relevant considerations were satisfactorily embedded in the key operations of the business. Such integration helps ensure the Group's approved operational practices are clearly articulated and understood by all relevant employees, ensuring our reputation for high standards of business conduct is maintained. Such practices in turn will help ensure our longer-term strategic aims are delivered, in the interests of all our stakeholders.

Governance

Directors' Report
This report sets out other information of interest to shareholders. It includes information on our significant shareholders, the Directors' responsibility statement and the Directors' statement on going concern.

Corporate Governance Report
This report explains our governance framework.

Modern Slavery and Human Trafficking Statement
This statement sets out the steps taken by us to ensure that slavery and human trafficking are not taking place in our supply chains or in any part of our business.

directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2020.

Principal activities, review of business and other disclosures

Details of the Company's principal activities and a review of the business, including how the business environment is likely to affect its future development and performance, are included in the Strategic Report.

Directors

The following Directors held office at the date of this report:

Gordon Campbell

Matthew Wilson

Mark Allan

Andrew Barnard

Jeremy Ehrlich (resigned 28.08.2020)

Andrea Welsch

Statement of Directors' responsibilities

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

Company law requires that the Directors prepare financial statements for each financial year. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent; 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 confirm that, to the best of their knowledge:

- The consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Dividends

On 9 April 2020, the Company paid a dividend of US$20.6m to the holder of its class A ordinary shares. The Directors do not recommend a final dividend.

Share capital

The Company's ordinary issued share capital at 31 December 2020 comprised one class of ordinary shares, class B ordinary, which are fully paid.

Voting rights

The Company's articles of association provide that a resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is duly demanded in accordance with the articles.

Articles of Association

The Company's articles of association may only be amended by the unanimous approval of the Company's shareholders.

Shareholders

The Company's shareholder at the time of this report is as follows:

	Units	Class	% of Shareholder total
FFHL Group Limited	568,837,653	B Ordinary	100.0

- During 2020, FFHL Group Limited subscribed for 121,860,468 new Brit Limited class B ordinary shares for US$524.0m, as follows:
- On 7 April 2020, 46,511,628 Class B Ordinary Shares for US$200.0m;
- On 24 August 2020, 19,767,442 Class B Ordinary Shares for US$85.0m;
- On 21 September 2020, 3,488,373 Class B Ordinary Shares for US$15.0m;
- On 20 November 2020, 31,395,349 Class B Ordinary Shares for US$135.0m;
- On 23 November 2020, 3,720,931 Class B Ordinary Shares for US$16.0m; and
- On 23 December 2020, 16,976,745 Class B Ordinary Shares for US$73.0m.

Additionally, on 28 August 2020, as per the Shareholder's Agreement, FFHL Group Ltd purchased the remaining 48,000,000 class A shares directly from OMERS, increasing its ownership of Brit to 100% (31 December 2019: 89.26%). All shares were then converted into class B shares.

Significant agreements

The following agreement which was in force at 31 December 2020, takes effect, alters or terminates on a change of control of the Company.

Revolving Credit Facility

The Group has a syndicated revolving credit facility (RCF) which provides for US$450.0m of committed multi-currency financing. Amounts under the RCF can be drawn until 30 November 2023, and the RCF terminates on 31 December 2023, on which date all outstanding facilities must be repaid.

The RCF also contains a change of control provision under which, upon the occurrence of a change of control, the lenders may refuse to fund utilisation requests under the RCF, cancel their commitments and demand immediate repayment of all outstanding amounts.

Employment

Brit is an equal opportunities employer. This means we will not unlawfully discriminate against any person on grounds of colour, religion or belief, race or ethnic origin, nationality or national origin, sex or sexual orientation, marital status, disability, age, pregnancy or maternity, or gender reassignment. We have established policies to ensure that there is no discrimination against applicants for a job or whilst in employment.

The Company is committed to ensuring equal opportunities in relation to job advertisements, recruitment and selection, assessment of work performance or conduct, disciplinary and grievance procedures, conditions of service, promotion and training, pay and benefits and termination of employment.

In the event of employees becoming disabled, every effort is made to ensure their employment with the Group continues and appropriate training arranged. So far as possible, the Company ensures that the training, career development and promotion of any disabled person are identical to that of a colleague who does not suffer from such a disability.

The Company maintains procedures by which all employees are systematically encouraged to express matters that may affect them and are provided with information on matters of concern.

The employee share scheme, as well as other means provide an opportunity for staff involvement in the Company's performance.

Energy consumption and greenhouse gas emissions

Brit's energy consumption and greenhouse gas emissions, and its related strategy, are discussed on pages 49 to 50.

Political donations

Neither the Company nor any of its subsidiaries made any political donations during the year.

Disclosure of information to the Company's auditor

In accordance with the provisions of section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

Auditor

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

Events occurring after the reporting date

Brit notes the outcome of the Supreme Court ruling on 15 January 2021 in respect of the FCA'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 Group.

The disposal of the Commonwealth Insurance Company of America (CICA) completed on 5 February 2021 for a consideration of US$19.7m. Brit originally acquired CICA in April 2018 at a cost of US$16.4m. As at 31 December 2020, the assets and liabilities of CICA were recorded within the balance sheet lines of Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale, reflecting the Group's expectation of sale in 2021.

Going concern

As part of its going concern assessment, the Board has considered the impact of the COVID-19 pandemic on specific risks, and considered how successfully Brit has managed those risks:

- **Operational risk:** Including Brit's ability to work remotely and continue to provide a high level of service its customers.
- **Insurance risk:** Including Brit's reserving methodology and how it actively manages its portfolio to ensure it is appropriately positioned for **both** the pandemic and the recessionary economic conditions.
- **Investment and market risk:** Including the positioning of Brit's investment portfolio and expected returns.
- **Credit risk:** Including any evidence as to the financial impact of COVID-19 on our customers.
- **Solvency:** Including Brit's capital strength at 31 December 2020 and its track record of accessing additional capital from its ultimate parent.
- **Liquidity risk:** Including stress testing of liquid resources, access to sources of liquidity including undrawn RCF amounts, and RCF covenant headroom.

These risks are discussed in more detail on pages 40 to 45.

The Board also considered other factors including:

- **Brit's baseline 2021 financial plan:** For Brit's main underwriting platform, Syndicate 2987, 2021 GWP is forecast to grow by 12.5%. The Board noted that as in previous years, Brit continues to actively manage the portfolios by segmenting Classes into 'High Performing', 'Core Growth', 'Core New Initiatives', 'Core Opportunistic' and 'Portfolio Management'. Growth (excluding RARC) is driven primarily by the 'High Performing' and 'Core Growth' segments, while the largest increases in RARC are targeted on the weakest performing segments of the portfolio. In assessing the plan, the Board considered, amongst other factors:
  - **Brit's recent underwriting performance:** During 2020, Brit has demonstrated the strength of its underlying business with an attritional ratio of 52.6%. This strong ratio is partly driven by market conditions which continue to improve.
  - **Improving market conditions:** In 2020, Brit achieved an overall risk adjusted rate increase of 10.6%, giving total rate increases since 1 January 2018 of 20.2%. Further increases have been achieved to date in 2021.
  - **Brit's reserving policy and track record:** Brit has a policy of reserving on a 'conservative best estimate' basis and carrying an explicit risk margin above that 'conservative best estimate'. This policy has led to a track record of modest annual reserve releases. In 2020, this trend, first reported in 2004, continued with net releases of US$61.5m in 2020 (2019: US$47.9m).
  - **Investment market conditions:** The Directors considered if the current low interest rate environment was appropriately reflected in the plan.
- **Scenario testing around the ongoing impact of the pandemic:** Assessments were performed throughout 2020, with the most recent in December. This used Brit's baseline 2021 financial plan, and considered moderate and severe downside scenarios. For example, against a base case of a vaccination programme roll-out in Q1 2021, the moderate scenario assumed the programme would not start until Q2 2021 or later, while the severe scenario assumed a slow vaccination roll-out with potential side effects. The impact of premium volumes, rates, defaults, claims deterioration and investment return were all assessed under both the moderate and severe scenarios. In addition to the impact on capital from trading losses, the exercise also considered the impact of interest rates on management capital requirements.
- **2022 outlook:** The Directors also considered the Group's outlook for 2022.

A review of the financial performance of the Group is set out on pages 24 to 34. The financial position of the Group, its cash flows and borrowing facilities are set out on pages 37 to 39.

After assessing the evidence from the reviews performed, the Directors concluded they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Information included in the Strategic Report

The information below is not shown in the Directors' report because it is shown in the Strategic Report instead under s414C(11).

- **Employee engagement**
  Disclosures regarding employee engagement can be found on pages 47 to 48.
- **Stakeholder engagement**
  Disclosures regarding stakeholder engagement can be found on pages 51 to 54.
- **Charitable donations**
  Disclosures regarding charitable donations can be found on pages 47 to 49.
- **Financial instruments**
  Details of the Group's risk management framework are set out on pages 40 to 45.

By order of the Board

Tim Harmer Company Secretary
16 February 2021

Brit Limited – 08821629

corporate governance report

Introduction

The Company has in place a memorandum of Corporate Governance that sets out the Corporate Governance principles of the Group based on the UK Corporate Governance Code (Code).

Board of Directors

The Board currently has six Directors and the full board meets on a regular basis.

Independence of Directors

The Board considers Gordon Campbell to be an independent non-executive Director of the Company, within the meaning of the Code. Gordon Campbell was appointed Chair of the Board on 1 January 2019, chair of the Company's Audit Committee with effect from 1 January 2019, chair of the Company's Nomination Committee with effect from 1 January 2019 and chair of the Company's Remuneration Committee with effect from 1 January 2019.

Chair

The Chair is responsible for leadership of the Board ensuring its effectiveness on all aspects of its role and setting its agenda. The Chair is responsible for setting the agenda for Board deliberations, with the help of the executive Directors and the Company Secretary, to be primarily focused on strategy, performance, value creation and accountability, and ensure that issues relevant to these areas are reserved for Board decision. The Chair, in conjunction with the Company Secretary, ensures that the Board members receive accurate and timely information.

Group Chief Executive Officer

The Group Chief Executive Officer is responsible for implementing and executing the strategy of the Group and for generally running the Group's business.

Conflicts of Interest

Under the Companies Act 2006, all Directors must seek authorisation before taking up any position with another company that conflicts or may possibly conflict with the Company's interests. The Directors are required to notify the Company of any conflicts so that they can be considered and if appropriate authorised by the Board. The Board carries out an annual review of conflicts of interest and each authorisation is set out in the conflicts register.

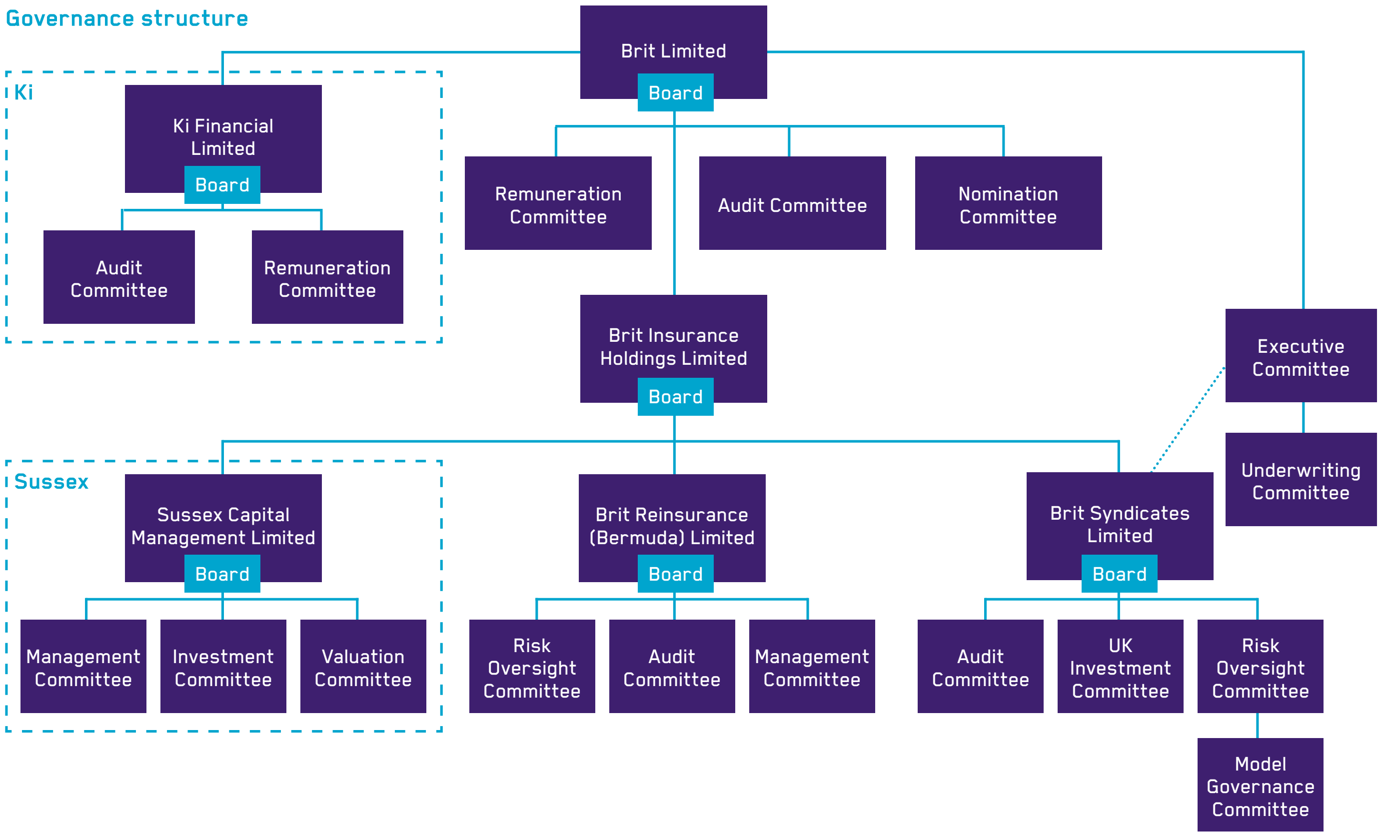
Committees of the Board

The Board has delegated specific responsibilities to Board committees, notably the Brit Limited Audit, Nomination and Remuneration Committees.

Brit Governance Structure as at 31 December 2020

The Governance structure, shown below, is deeply embedded within the business. The Company's main operating subsidiaries have in place governance principles in accordance with the Group's Memorandum on Corporate Governance.

Governance structure



Audit Committee
The Audit Committee is responsible for overseeing the Group's financial reporting processes, internal control and risk management framework and the work undertaken by the external auditor. Regular updates are provided to the Board by the committee chair.

Remuneration Committee
The Remuneration Committee is responsible for setting the Group's remuneration policy. The Company aims to reward employees fairly. The Committee is also responsible for setting the remuneration of all executive Directors. The Committee currently comprises one executive Director, one non-executive shareholder representative Director and one independent non-executive Director who is also the Chair of the Board, whereas the Code indicates that the Chair of the Board should not chair the Committee, and that membership of the Committee should be comprised of three independent non-executive directors.

Nomination Committee
The composition of the Board is reviewed regularly by the Nomination Committee. In considering the Board's composition, the Committee is mindful of the need to maintain a well–balanced Board in terms of skills, knowledge, experience and background. The appointment of all new Directors is led by the Nomination Committee.

By order of the Board

Tim Harmer Company Secretary
16 February 2021

modern slavery and human trafficking statement

This statement sets out the steps taken by Brit Limited to ensure that slavery and human trafficking are not taking place in our supply chains or in any part of our business. Slavery and human trafficking can occur in many forms, such as forced labour, child labour, domestic servitude, sex trafficking and workplace abuse. Given the nature of the work that we do, we believe that there is a low risk of slavery or human trafficking having any connection with our business. We must, however, not be complacent, and all staff have a responsibility to be aware of any risks in our business and in our wider supply chains and report any concerns to senior management.

Our business

At Brit, we provide highly specialised insurance products to support our clients across a broad range of complex risks. We have a strong focus on the property, energy and casualty sectors. We have a major presence in Lloyd's of London (Lloyd's), the world's specialist insurance market provider, and a significant US and international reach. We have local offices in the US, Bermuda and Japan.

We operate globally via our own international distribution network and broker partners. Insurance represents 76.3% of our gross written premium, with the remainder coming from treaty reinsurance.

The average number of employees working at Brit during 2020, including non-executive Directors, was 754 and the result after tax in 2020 was a loss of US$232.0m.

Our supply chains

We source our business through trading relationships with Lloyd's brokers, wholesale brokers, retail agents and reinsurance intermediaries. Most of our reinsurance business is sourced through global reinsurance brokers.

We require that all contractual agreements with third-party suppliers contain obligations to ensure compliance with the Modern Slavery Act 2015.

As part of any due diligence exercise during supplier on-boarding or at regular intervals, potential slavery concerns must be assessed and addressed.

Our Procurement and Material Outsourcing Policy ensures that information around our requirements is detailed and available to our wider business.

Our policies on slavery and human trafficking

We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. We believe in paying people fairly and properly for their work. This policy reflects our commitment to acting ethically and with integrity in all our business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains.

Due diligence processes for slavery and human trafficking

As part of our initiative to identify and mitigate risk we have in place systems to:

- Identify and assess potential risk areas in our supply chains. We give all suppliers a copy of this statement and request a copy of their statement (if they are required to have one).
- Mitigate the risk of slavery and human trafficking occurring in our supply chains. We set clear expectations for our suppliers by informing them of our Code of Conduct, which states 'Brit does not tolerate modern slavery or any form of human trafficking within its business or supply chains. Brit does not allow harsh or inhumane treatment and we expect our suppliers to share our values'.
- Monitor potential risk areas in our supply chains. Staff are encouraged to report any concerns to senior management and there is a risk register operated by the Operational Risk Manager to record any such concerns.
- Ensure appropriate recruitment practices are carried out, using reputable employment agencies. We verify the practices of any new recruitment agency as part of our terms of business with them and before accepting any workers from that agency. We also request a copy of the agency's modern slavery statement (if it is required to have one). We ask any agency supplying us with staff to conduct verification checks on those staff (including verification of identity, references, evidence of qualifications and criminal and financial checks). We also carry out the same checks on direct hires.
- Protect whistleblowers. At Brit, workers, customers and suppliers are encouraged to report any concerns related to our activities or supply chains. This includes circumstances which may give rise to increased risk of slavery or human trafficking. Our whistleblowing procedure is designed to make it easy for people to make disclosures without fear of retaliation.

Training

To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains and our business, we provide training to appropriate members of staff.

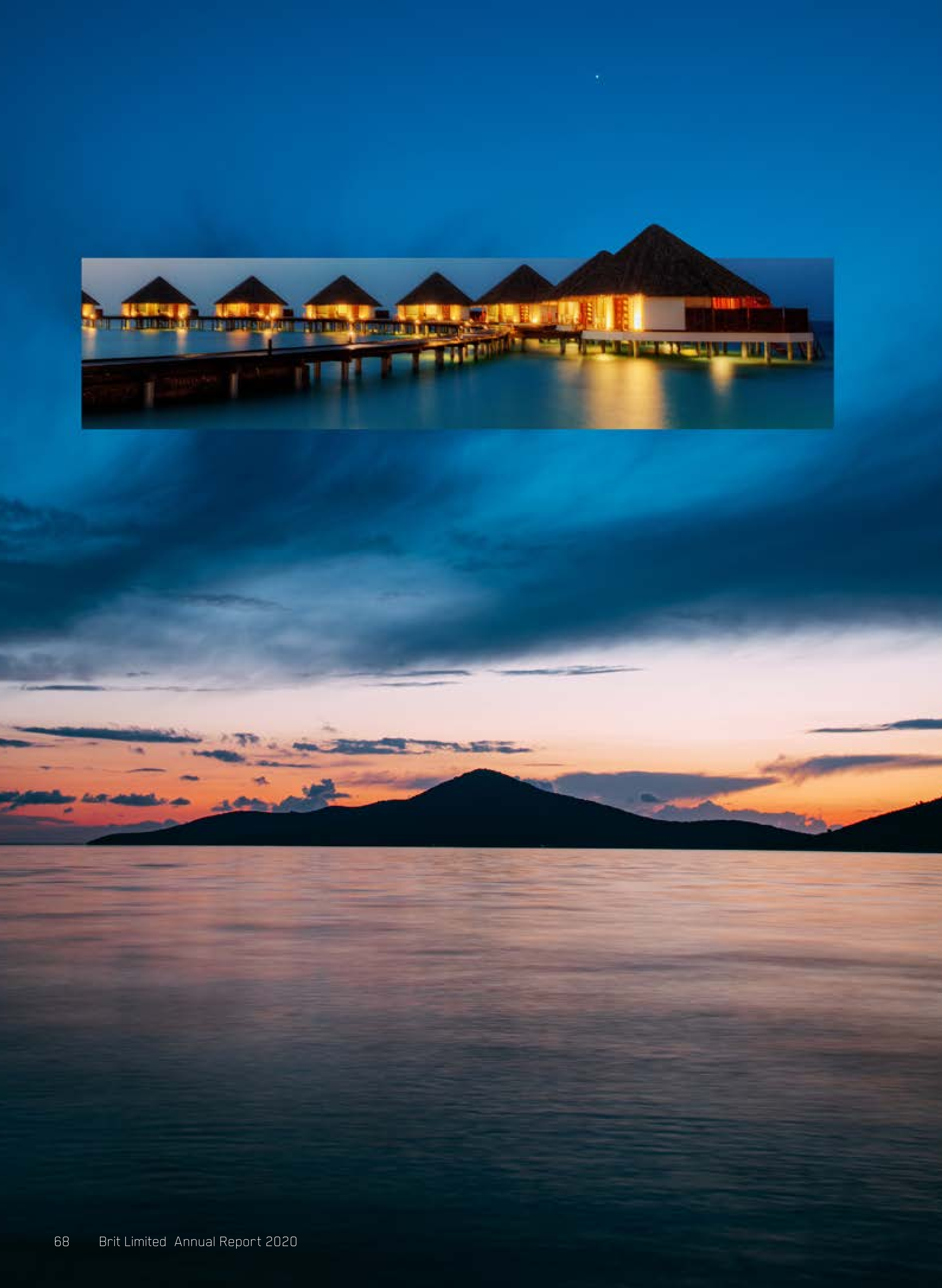
Our commitment

This statement is made pursuant to section 54(1) of the Modern Slavery Act 2015 and constitutes our Group's slavery and human trafficking statement for the financial year ending 31 December 2020.

This Modern Slavery and Human Trafficking Statement is reviewed by Brit's Board of Directors at least annually and may be amended from time to time.

By order of the Board

Tim Harmer Company Secretary
16 February 2021



Financial Statements

independent auditor's report to the members of Brit Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Brit Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and parent Company statements of financial position as at 31 December 2020; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the consolidated financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 2 to the consolidated financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

- In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group headed by Fairfax Financial Holdings Limited, of which the Company is a member.

Other than those disclosed in note 13 to the financial statements, we have provided no non-audit services to the Group or the Company in the period under audit.

Our audit approach

Overview

Audit scope

- We performed audit procedures over material balances/ transactions in active operations/ subsidiaries in the UK for the purpose of the Group audit.
- We have performed the majority of the work for the purpose of the Group audit on Brit Global Specialty Singapore Pte. Ltd. and Brit Reinsurance (Bermuda) Limited, as the Group maintains its accounting records in the UK.
- We have also scoped in certain balances and transactions in Sussex Capital Limited/Sussex Re Limited (Bermuda) which are audited by a component auditor and the results reported to us.

Key audit matters

- Appropriateness of methodologies and assumptions applied in the valuation of the IBNR component of insurance contracts liabilities (Group)
- Risk of inappropriate revenue recognition (including fraud risk (Group))
- Valuation of investments with valuations modelled using unobservable inputs (Group)
- Impact of Covid-19 (Group).

Materiality

- Overall Group materiality: US$14.79m (2019: US$16.39m) based on 1% of combined operating ratio. This represents the total by which net operating expenses and/or net claims incurred would have to fluctuate to move the combined operating ratio ('COR') by 1%.
- Overall Company materiality: US$14.79m (2019: US$12.68m) based on 1% of total assets.
- Performance materiality: US$11.09m (Group) and US$11.09m (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory principles, such as those governed by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Council of Lloyd's regulations, the FCA, and the PRA's regulations applicable to insurance companies, the Listing rules and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and management bias in accounting estimates such as valuation of the IBNR component of insurance contract liabilities, accrued pipeline premium and investments with valuations modelled using unobservable inputs. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with the audit committee, management, internal audit and the Group's director of legal and compliance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations/ narrative in journal description or posted by or on behalf of senior management;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Reading key correspondence with regulatory authorities which included, the Council of Lloyd's, the FCA and the PRA in relation to compliance with laws and regulations (including meeting with the PRA);
- Reviewing relevant meeting minutes including those of the Risk Committee and the Reserving Committee;
- Reviewing the Group's and Company's list of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud; and
- Procedures relating to valuation of the IBNR component of insurance contract liabilities, accrued pipeline premium and investments with valuations modelled using unobservable inputs described in the key audit matters below.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

This is not a complete list of all risks identified by our audit.

The impact of Covid-19 is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Independent auditor's report to the members of Brit Limited

Key audit matter	How our audit addressed the key audit matter
Appropriateness of methodologies and assumptions applied in the valuation of the IBNR component of insurance contracts liabilities (Group) See notes 2.5, 3.2, 4.1.3 and 21 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates. The IBNR component of insurance contract liabilities, net of reinsurance is a material balance within the financial statements which is judgemental and complex to calculate. These are a best estimate of all claims incurred but not reported at a given date, regardless of whether these have been reported to the Group. There are varying methods which can be adopted in the estimation of IBNR which are underpinned by a series of assumptions selected by the Group. These can rely on a large degree of judgement and relatively small changes in these assumptions can lead to significant movements in IBNR.	Our core team with actuarial specialists have performed the following: • We understood, assessed and tested the design and operational effectiveness of key controls over the Group's estimation of IBNR, which included controls over the extraction of data from the underlying systems and the review and approval of the IBNR. • We tested on a sample basis the underlying source data being claims incurred and claims payments to supporting documentation. • We developed a point estimate of IBNR on both a gross and net basis and we compared our estimate to those booked by management, and in all those cases where significant differences were identified, we obtained satisfactory responses, concluding on the reasonableness of management's estimates. • In relation to catastrophe events, we understood the approach used to set the booked reserves and consistency of its application. For a sample of individual claims balances, we traced the booked reserves back to supporting documentation. Further, we compared booked reserves to PwC's market view for major events and in all those cases where significant differences were identified we obtained satisfactory responses and concluded on the reasonableness of management estimates. Covid-19 is considered a catastrophe event, refer to the key audit matter for the Impact of Covid-19 below for the related testing procedures performed. Based on the work performed, the recorded IBNR is consistent with the evidence obtained.

Key audit matter	How our audit addressed the key audit matter
Risk of inappropriate revenue recognition (including fraud risk (Group)) See notes 2.5, 3.3, and 5 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates. Auditing standards assume a rebuttable presumption, that there is a significant risk of fraud in revenue recognition in all businesses. We have not rebutted the risk of fraud in revenue recognition and we determined the key risks of fraud in this area to be around the judgemental aspects of revenue which include appropriate premium earnings profiles applied to the various contracts/lines of business and accrued pipeline premium. The Group recognises a material amount of pipeline premiums estimates in its financial statements using an actuarial technique applied to historic written premium data in order to derive written premium development factors. For certain lines of business, judgemental adjustments are made to the derived written premium development factors.	Our testing procedures over pipeline premium estimates and non-standard earning patterns included: • We understood, assessed and tested the design and operating effectiveness of the governance and controls over the monitoring of pipeline premiums estimates. In particular we have focused on management's monitoring controls of pipeline premium forecasts and signed premiums to date. • We have reviewed the methodology adopted in the calculation of pipeline premiums estimates including recalculation of development factors. • We have understood a sample of material adjustments made to development factors in the determination of pipeline premiums estimates and considered whether these have been made appropriately. • We have obtained and checked, on a sample basis management's calculations for non-standard earning patterns. Based on the above procedures we note that no material exceptions were identified in relation to the risk of fraud in revenue recognition.
Valuation of investments with valuations modelled using unobservable inputs (Group) See notes 2.5, 3.6 and 23 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates. The Group investment portfolio contains US$185m of Level 3 investments measured at fair value, whose fair value is determined using unobservable inputs. Fair values for these investments can only be calculated using estimates or risk adjusted value ranges ('Level 3 portfolio investments') and accordingly these investments require some additional audit focus as they require a greater degree of judgement to value	We coordinated with our internal valuation specialists based in Toronto who centrally test the valuation of all investments. We have performed the following for a sample of Level 3 portfolio investments: • With our valuations specialists we reviewed the appropriateness of the valuation methodologies, models, key inputs and assumptions; • We corroborated key inputs and assumptions in the valuation model to independent support. For investments where the valuations are based on forecasted information and an estimate was made in prior reporting periods, we performed retrospective procedures to assess the reasonability of the forecasts used in management's valuation, comparing historic forecasted information to audited financial information; • Reviewed and re-performed the fair value calculations; and • Concluded on the reasonableness of the valuation models. Based on the above procedures, no material exceptions were found.

Independent auditor's report to the members of Brit Limited

Key audit matter	How our audit addressed the key audit matter
Impact of Covid-19 (Group) See notes 2.5, 3.2, 3.9 and 4.7 of the consolidated financial statements for disclosures of related accounting and risk management policies, judgements and estimates. The Covid-19 pandemic has had a significant impact on the performance of the Group during the year, resulting in increased estimation uncertainty in key areas of the financial statements described below: • Management estimated claims in 2020 relating to the Covid-19 represents the Group's largest major loss event, predominantly impacting the contingency and casualty treaty books. Management's estimates are based on a combination of detailed exposure analysis and underwriter judgement. Management also established an unexpired risk reserve (URR) as a result of Covid-19 related losses to reflect the fact that losses are expected on premium that has been written but is yet to be earned. • The estimated claims arising from Covid-19 have contributed to the total carried forward tax losses in respect of Lloyd's undeclared years of account 2018, 2019 and 2020, in respect of which management have recognised a deferred tax asset of $52.5m (note 3.9). Management have not recognised a further deferred tax asset of $43.9m on the basis that management consider it is not yet possible to measure the asset reliably due to further work required to forecast results beyond 2027. • The Group continues to benefit from the support of the parent entity, with capital contributions provided during the year to strengthen the resilience of the statement of financial position. Management determined that the Group has continued ability to access sufficient liquidity and can continue making claims payments as they fall due. The directors have considered the appropriateness of the going concern basis of preparation in the Group's financial statements and have considered the impact of Covid-19 on operational, insurance, investment, market, credit, solvency, and liquidity risks and how the Group managed those risks. • Management's ways of working, including the operation of controls, has been impacted as a result of a large number of staff having to work remotely. This has inevitably resulted in an increase in risk due to the remote accessing of the IT systems and a potentially heightened cyber risk.	In response to the key areas identified as being significantly impacted by Covid-19, we performed the following procedures: • We performed inquiries with members of the underwriting and actuarial teams to understand management's estimation process, monitoring of controls and key assumptions. We tested the completeness of exposure analyses and challenged key assumptions such as the likelihood of event cancellation. We traced notified losses to supporting documentation, including corroborating and contradictory evidences. We also assessed assumptions relating to reinsurance, including reviewing legal opinions supporting management's position where appropriate. We utilised a combination of market benchmarking and testing of management's process in our testing of Covid-19 losses and related URR. • We reviewed supporting evidence for the recoverability of deferred tax assets. We considered historical performance against forecasts, understood key assumptions relating to future forecasts and how management had responded to historical variances against business plans. • We traced capital contributions to supporting documentation and reviewed management's assessment of solvency and liquidity as part of their going concern analysis.We also corroborated information obtained from our testing of Covid-19 losses and our understanding of the business. • We performed additional procedures to assess any control implications arising from the impact of Covid-19, including inquiries regarding the operation of IT and business process controls and heightened cyber risk and evaluating the results of our control testing. Based on the work performed, we determined the recorded losses related to Covid-19 are based on the best available information at the time of management's estimation of the losses and are consistent with the evidence obtained. We determined that the key assumptions used are reasonable in relation to the circumstances of the loss and the exposures identified are based on complete information. We did not identify material exceptions. Our market benchmarking indicates that the Group's ultimate claim estimates at a total level are broadly in line with market averages. We did not identify any risks to going concern in relation to Covid-19. We also did not identify any evidence of material deterioration in the control environment due to Covid-19.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Brit is a global specialty insurer and reinsurer, present in Lloyd's of London and has operations in the United States of America, Singapore and Bermuda, and writes insurance business internationally. Further, the Group has invested in Sussex Capital Limited, which is a special purpose vehicle in Bermuda, which through Sussex Re Limited (a Bermuda domiciled special purpose insurer) writes direct collateralised reinsurance while also providing collateralised reinsurance to Brit's reinsurance portfolio. We have scoped in the active operations/subsidiaries in the UK for the purpose of the Group audit and performed audit procedures over material balances/transactions. Further, for subsidiaries in Singapore (Brit Global Specialty Singapore Pte. Ltd.) and Bermuda (Brit Reinsurance (Bermuda) Limited), we have performed the majority of the work for the purpose of the Group audit, as the financial records and supporting information are maintained in the Group's London headquarters. We have also scoped in certain balances and transactions in Sussex Re Limited/ Sussex Capital Limited, which are audited by a component auditor and the results reported to us.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	US$14.79m (2019: US$16.39m).	US$14.79m (2019: US$12.68m).
How we determined it	1% of combined operating ratio. This represents the total by which net operating expenses and/or net claims incurred would have to fluctuate to move the combined operating ratio ('COR') by 1%	1% of total assets, capped at the group materiality level
Rationale for benchmark applied	Materiality for the consolidated financial statements is based on a 1% change in combined operating ratio. The benchmark to determine materiality for the Group has been chosen as the combined operating ratio which is a primary performance measure for Brit.	We believe that due to the nature of operations of the parent Company which is a holding company, total assets is an appropriate and generally accepted auditing benchmark.

Independent auditor's report to the members of Brit Limited

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was US$4.75m and US$14.78m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US$11.09m for the Group financial statements and US$11.09m for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$0.74m (Group audit) (2019: US$0.82m) and US$0.74m (Company audit) (2019: US$0.61m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Inquiries with directors and relevant members of management
- Assessment of the impact of Covid-19 pandemic to going concern and specific responses made by management to address any additional risks identified as a result of the pandemic
- Assessment of the Company's financial position, capital and solvency measures, and liquidity
- Tracing capital contributions and commitments to supporting documentation

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and 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 the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 (UK) 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.
- a corporate governance statement has not been prepared by the Company.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 14 June 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ended 31 December 2016 to 31 December 2020.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

16 February 2021

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Introduction to the Primary Statements

Consolidated Income Statement

The income statement shows income earned and expenses incurred by all the companies of Brit. Other items are shown in the statement of comprehensive income. The numbers in brackets are costs or losses incurred.

Consolidated Statement of Comprehensive Income

As well as the profit or loss reported in the income statement, there are a number of other items not reported in the income statement which are instead shown here. These are gains and losses in the Group's pension scheme, any tax associated with these gains or losses and foreign exchange gains and losses on the translation of foreign operations into US dollars. The statement starts from profit or loss reported in the income statement and adjusts for any gains and losses arising as a result of the pension scheme and foreign operations to show the overall result.

Consolidated Statement of Financial Position

The statement of financial position is a summary of assets and how the assets have been funded through liabilities and equity investment by shareholders.

Consolidated Statement of Cash Flows

The cash flow statement shows how we generate cash through our operating activities, how we have spent cash (investing activities) and how we have borrowed or spent cash to fund our business for all the companies in the Group.

Consolidated Statement of Changes in Equity

The statement of changes in equity shows how the various lines in the equity section of the Group's statement of financial position have moved during the year.

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Index to the Consolidated Financial Statements

consolidated income statement

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Revenue			
Gross premiums written	5	**2,424.4**	2,293.5
Less premiums ceded to reinsurers	5	**(648.8)**	(637.3)
Premiums written, net of reinsurance		**1,775.6**	1,656.2
Gross amount of change in provision for unearned premiums		**(52.2)**	(43.8)
Reinsurers' share of change in provision for unearned premiums		**(12.7)**	29.5
Net change in provision for unearned premiums		**(64.9)**	(14.3)
Earned premiums, net of reinsurance		**1,710.7**	1,641.9
Investment return	6	**56.5**	158.5
Return on derivative contracts	7	**(1.1)**	(17.6)
Gain on business combination		**–**	10.2
Other income	8	**14.1**	45.9
Losses on other financial liabilities	8	**(6.0)**	(10.5)
Net foreign exchange gains	9	–	16.8
Total revenue		**1,774.2**	1,845.2
Expenses			
Claims incurred:			
Claims paid:			
Gross amount		**(1,326.8)**	(1,366.6)
Reinsurers' share		**391.4**	509.1
Claims paid, net of reinsurance		**(935.4)**	(857.5)
Change in the provision for claims:			
Gross amount		**(417.6)**	83.2
Reinsurers' share		**113.9**	(140.2)
Net change in the provision for claims		**(303.7)**	(57.0)
Claims incurred, net of reinsurance	5	**(1,239.1)**	(914.5)
Acquisition costs	10	**(598.7)**	(595.2)
Other operating expenses	10	**(137.5)**	(125.8)
Net foreign exchange losses	9	**(7.8)**	–
Total expenses excluding finance costs		**(1,983.1)**	(1,635.5)
Operating (loss)/profit		**(208.9)**	209.7
Finance costs	12	**(23.6)**	(23.7)
Share of net profit of associates	14	**2.0**	0.3
(Loss)/profit on ordinary activities before tax		**(230.5)**	186.3
Tax (charge)/income	16(a)	**(1.5)**	(6.4)
(Loss)/profit for the year		**(232.0)**	179.9

All (losses)/profits arise from continuing operations.

The accompanying Notes are an integral part of the financial statements.

consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
(Loss)/profit attributable to:			
Owners of the parent		**(229.3)**	179.9
Non-controlling interests	15	**(2.7)**	–
(Loss)/profit for the year		**(232.0)**	179.9
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial losses on defined benefit pension scheme	22	**(5.5)**	(4.7)
Deferred tax gain relating to actuarial losses on defined benefit pension scheme	16(b)	**1.8**	6.4
Items that may be reclassified to profit or loss in subsequent periods:			
Change in unrealised foreign currency translation losses on foreign operations		**2.3**	3.7
Total other comprehensive income		**(1.4)**	5.4
Total comprehensive income recognised for the year		**(233.4)**	**185.3**
Total comprehensive income for the year attributable to:			
Owners of the parent		**(230.7)**	185.3
Non-controlling interests	15	**(2.7)**	–
Total comprehensive income for the year		**(233.4)**	185.3

The accompanying Notes are an integral part of the financial statements.

consolidated statement of financial position

At 31 December 2020

	Note	31 December 2020 US$m	31 December 2019 US$m
Assets			
Intangible assets	17	**181.2**	192.6
Property, plant and equipment	18	**60.5**	67.9
Deferred acquisition costs	19	**247.3**	243.6
Investments in associated undertakings	14	**20.5**	19.4
Reinsurance contracts	21	**1,764.1**	1,628.1
Employee benefits	22	**48.8**	51.9
Deferred taxation	20	**49.8**	41.1
Current taxation		**8.5**	11.4
Financial investments	23	**4,056.6**	3,640.6
Derivative contracts	24	**14.9**	15.7
Insurance and other receivables	25	**1,302.0**	1,240.2
Cash and cash equivalents	26	**775.7**	520.1
Assets classified as held for sale	27	**17.8**	–
Total assets		**8,547.7**	7,672.6
Liabilities and Equity			
Liabilities			
Insurance contracts	21	**5,813.0**	5,266.1
Borrowings	28	**314.5**	316.2
Other financial liabilities	29	**62.0**	75.5
Provisions		**2.3**	3.5
Deferred taxation	20	**9.9**	–
Current taxation		**–**	1.2
Derivative contracts	24	**9.2**	14.2
Insurance and other payables	30	**620.7**	676.0
Liabilities directly associated with assets classified as held for sale	27	**1.8**	–
Total liabilities		**6,833.4**	**6,352.7**
Equity			
Called up share capital	31	**8.6**	7.0
Share premium	31	**1,027.9**	505.5
Capital redemption reserve		**1.0**	1.0
Foreign currency translation reserve		**(84.1)**	(86.4)
Retained earnings		**639.2**	892.8
Total equity attributable to owners of the parent		**1,592.6**	1,319.9
Non-controlling interests	15	**121.7**	–
Total liabilities and equity		**8,547.7**	7,672.6

The accompanying Notes are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 16 February 2021 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

consolidated statement of cash flows

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Cash flows from operating activities			
Cash used in operations	33	**(414.3)**	(467.0)
Tax received		**2.7**	0.6
Interest received		**63.3**	70.1
Dividends received		**6.3**	5.3
Net cash outflows from operating activities		**(342.0)**	(391.0)
Cash flows from investing activities			
Purchase of intangible assets	17	**(6.5)**	(5.2)
Purchase of property, plant and equipment	18	**(1.2)**	(4.9)
Acquisition of subsidiary undertaking		**–**	(31.1)
Acquisition of associated undertaking		**–**	(13.0)
Dividends from associated undertakings		**1.0**	0.5
Net cash outflows from investing activities		**(6.7)**	(53.7)
Cash flows from financing activities			
Proceeds from issue of shares		**524.0**	70.6
Drawdown/(repayment) on revolving credit facility		**(10.0)**	132.0
Purchase of shares for share-based payment schemes		**(3.0)**	(25.0)
Interest paid		**(14.0)**	(14.5)
Transactions with non-controlling interests	15	**124.0**	–
Dividends paid to owners of the parent	32	**(20.6)**	(20.6)
Net cash inflows from financing activities		**600.4**	142.5
Net increase/(decrease) in cash and cash equivalents		**251.7**	(302.2)
Cash and cash equivalents at the beginning of the year		**520.1**	818.2
Effect of exchange rate fluctuations on cash and cash equivalents		**3.9**	4.1
Cash and cash equivalents at the end of the year	26	**775.7**	520.1

The accompanying Notes are an integral part of the financial statements.

consolidated statement of changes in equity

For the year ended 31 December 2020

	Note	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total attributable to owner of the parent US$m	Non-controlling interests US$m	Total equity US$m
At 1 January 2020		**7.0**	**505.5**	**1.0**	**(86.4)**	**892.8**	**1,319.9**	**–**	**1,319.9**
Total comprehensive income recognised		–	–	–	2.3	(233.0)	(230.7)	(2.7)	(233.4)
Issuance of share capital	31	1.6	522.4	–	–	–	524.0	–	524.0
Dividend	32	–	–	–	–	(20.6)	(20.6)	–	(20.6)
Transactions with non-controlling interests	15	–	–	–	–	–	–	124.4	124.4
At 31 December 2020		**8.6**	**1,027.9**	**1.0**	**(84.1)**	**639.2**	**1,592.6**	**121.7**	**1,714.3**

The accompanying Notes are an integral part of the financial statements.

consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total equity US$m
At 1 January 2019		6.8	435.1	1.0	(89.7)	731.8	1,085.0
Total comprehensive income recognised		–	–	–	3.7	181.6	185.3
Recycling of foreign exchange losses upon acquisition of Ambridge		–	–	–	(0.4)	–	(0.4)
Issuance of share capital	31	0.2	70.4	–	–	–	70.6
Dividend	32	–	–	–	–	(20.6)	(20.6)
At 31 December 2019		7.0	505.5	1.0	(86.4)	892.8	1,319.9

Nature and Purpose of Group Reserves

Share premium: The balance represents the difference between the price at which shares are issued and their nominal value, less any distributions made from this account.

Capital redemption reserve: The balance represents the amount by which share capital is diminished in the event of a share cancellation and is required to be recognised in a legal reserve to maintain the Group's capital.

Foreign currency translation reserve: The balance on this reserve represents the foreign exchange differences arising from the translation of financial statement information of entities within the Group from functional currencies to the presentational currency of the Group.

Retained earnings: Retained earnings represents the cumulative comprehensive income retained by the Group after taxation and after any distributions made from this account.

The accompanying Notes are an integral part of the financial statements.

notes to the consolidated financial statements

The first three Notes provide details of the basis of preparation and accounting policies applied in producing these financial statements and the critical accounting estimates and judgements therein.

1 General information

The consolidated financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 16 February 2021. The Group's principal activity is the underwriting of general insurance and reinsurance business.

Brit Limited (the Company) is a limited company, incorporated and domiciled in England and Wales. The address of the registered office is: The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB.

2 Accounting policies and basis of preparation

2.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS"). The accounting policies of the Group have been applied consistently to all the years presented, unless otherwise stated. The Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated financial statements have been compiled on a going concern basis and prepared on a historical cost basis, except for financial investments, derivative contracts and certain other financial liabilities which have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest US$0.1m except where otherwise indicated.

Certain amounts recorded in the financial information include estimates and assumptions made by management, particularly about insurance liability reserves, investment valuations, interest rates and other factors. Actual results may differ from the estimates made. Further details on estimates, judgements and assumptions are included within Note 3 to the consolidated financial statements.

The Directors have considered the impact of the COVID-19 pandemic on the principal risks and uncertainties faced by the Group as summarised in Note 4.7.

The Directors have considered various factors in order to be satisfied that a going concern basis of preparation is appropriate. Such factors include, but are not limited to, the reserving policy and track record of the Group, including recent underwriting performance, improving market conditions, and the financial plans of the Group. Additionally, the capital position of the Group has been bolstered by capital injections of US$524.0m from the ultimate parent company, Fairfax Financial Holdings Limited. More detail on these considerations can be found on pages 63 to 64 of the Strategic report.

After assessing evidence in respect of these considerations, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they consider it appropriate to continue to adopt the going concern basis for the preparation of its consolidated financial statements.

The consolidated financial statements include the results of the Company and all its subsidiary undertakings (collectively, the Group) made up to the same accounting date.

The Group has adopted the following standards and amendments with a date of initial application of 1 January 2020 for the first time:

(a) Other improvements and amendments

The Group has also applied the following standards and amendments for the first time for the reporting period commencing 1 January 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8
- Definition of a Business – Amendments to IFRS 3
- Revised Conceptual Framework for Financial Reporting, and
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective:

Standard	Effective
IFRS 9 Financial Instruments (2014)	Periods commencing on or after 1 January 2018
IFRS 17 Insurance Contracts (2017)	Periods commencing on or after 1 January 2023

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 that replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9. IFRS 9 (2014) addresses all three aspects of the IASB's accounting for financial instruments project, including classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Currently, the Group's investment and derivatives portfolios are recorded at fair value through profit or loss under IAS 39. Brit expects to continue to record these items at fair value through profit or loss under IFRS 9.

In September 2016 the IASB issued amendments to IFRS 4 that provided two approaches for insurers applying the requirements of IFRS 9, including an optional temporary exemption from applying IFRS 9 until 2021 for those companies whose activities are predominantly connected with insurance. In line with the deferral of the effective date of IFRS 17 to 1 January 2022 the IASB has agreed to extend the IFRS 9 exemption for insurers to the same date. Brit has taken advantage of this temporary exemption and will apply IFRS 9 for the period beginning 1 January 2023.

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities. IFRS 17 replaces the existing insurance contracts accounting standard, IFRS 4, and is effective for annual periods beginning on or after 1 January 2023, with early application permitted. This standard has not yet been endorsed by the EU.

Brit has initiated an implementation project which is currently assessing the impact of adopting IFRS 17 on its financial statements and which will determine both the operational and reporting effects upon the business. The project will ensure that Brit Limited can meet all of its reporting requirements in 2023.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and associates and the Group's participation in Lloyd's syndicates' assets, liabilities, revenues and expenses. Subsidiaries are those entities (including structured entities) that an investor controls, when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Non-controlling interests in the results are shown separately in the consolidated income statement, statement of comprehensive income, consolidated statement of changes in equity and statement of financial position respectively.

The financial statements of the subsidiaries are prepared up to 31 December each year. Consolidation adjustments are made to convert subsidiary financial statements from local GAAP into IFRS to remove any dissimilar accounting policies that may exist. Subsidiaries are consolidated from the date control is transferred to the Group and cease to be consolidated from the date control is transferred from the Group. All inter-company balances, profits and transactions are eliminated. The acquisition method of accounting is used to account for business combinations by the Group.

Included within the financial statements of the Group are structured entities where under the requirements of IFRS 10 Consolidated Financial Statements it has been determined that control exists. The third-party investment in these entities is recognised as a financial liability in accordance with IAS 32.

2 Accounting policies and basis of preparation (continued)

Underwriting members at Lloyd's have several but not joint liability for the transactions of the syndicates in which they participate. Therefore, for each managed syndicate on which the Group participates, only the relevant proportion of the transactions, assets and liabilities of those syndicates are reflected in the consolidated financial statements. Syndicate assets are held subject to trust deeds for the benefit of the syndicate's insurance creditors. As at 31 December 2020 Brit UW Limited, a subsidiary of the Group, provided 100% of the capital for Syndicate 2987 and therefore all transactions, assets and liabilities of Syndicate 2987 have been included in the Group's financial statements. The Group managed the underwriting of, and participated as a member with an 18.46% share of the 2018 year of account of, Syndicate 2988 at Lloyd's. The Group also participated as a member with a 60.70% share of the 2020 year of account of Syndicate 2988 at Lloyd's. Consequently, 18.46% of the 2018 year of account, as well as 60.70% of the 2020 year of account, has been consolidated into the financial position and performance in the Group's financial statements. The Group did not participate on Syndicate 2988's 2019 year of account.

Associates are those entities over which the Group has the power to exercise significant influence but not control. The Group's investments in associated undertakings are accounted for under the equity method of accounting whereby associated undertakings are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The income statement reflects the Group's share of the post-acquisition results of operations of the associated undertaking and the statement of comprehensive income reflects the Group's share of the comprehensive income of the associated undertaking. The financial statements of associated undertakings are prepared up to 31 December each year.

2.3 Product classification

Insurance contracts are those contracts that transfer significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. Where the Group has issued financial guarantee contracts these have been regarded as insurance contracts and have been accounted for in accordance with IFRS 4 'Insurance Contracts'.

2.4 Business combinations

The acquisition method of accounting is used for business combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest (NCI) in the acquiree, where relevant. Acquisition-related costs are expensed as incurred. Where goodwill or a bargain purchase arises, this is accounted for in accordance with the policy set out in Note 2.5.7(a).

When the Group acquires a business, it assesses the identifiable assets acquired and liabilities assumed, measured initially at their fair values at the acquisition date, for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. No reclassification of insurance contracts is required as part of the accounting for the business combination. Thus, insurance contracts are classified on the basis of the contractual terms and other factors at the inception of the contract or modification date.

The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration will be recognised at fair value at the acquisition date. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability within or outside the scope of IAS 39 is measured at fair value through profit or loss (FVTPL).

2.5 Other accounting policies

2.5.1 Insurance contracts

(a) Premiums

Premiums written relate to 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. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the income statement on a pro rata basis over the term of the original policy to which it relates. Premiums are shown net of premium taxes and other levies on premiums. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. basic chain ladder) on the key assumption that historical development of premiums is representative of future development.

(b) Profit commissions

Profit commission income arising from whole account quota share contracts is recognised when the economic benefits are highly probable. They are netted off against commission costs which are included within the 'acquisition costs' line in the income statement.

(c) Deferred acquisition costs

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

(d) Claims incurred

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 and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

(e) Outstanding claims provisions

Outstanding claims 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 date of the statement of financial position, including provision for claims incurred but not reported, less any amounts paid in respect of those claims. The Group does not discount its liabilities for unpaid claims, the ultimate cost of which cannot be known with certainty at the date of the statement of financial position.

(f) Provision for unearned premiums

The proportion of written premiums that relate to unexpired terms of policies in force at the date of the statement of financial position is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the income statement in order that revenue is recognised over the period of the risk.

(g) Liability adequacy tests

At the date of each statement of financial position, liability adequacy tests are performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs, employing the current estimates of future cash flows under its insurance contracts. If as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate in comparison to the value of these future cash flows, the deficiency is charged to the income statement for the period by establishing an unexpired risk provision. The tests are performed at a whole account and portfolio level at the statement of financial position date to ensure the estimated costs of future claims and related deferred acquisition costs do not exceed the unearned premium provision.

2 Accounting policies and basis of preparation (continued)

(h) Reinsurance

The Group assumes and cedes reinsurance in the normal course of business. 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.

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts recoverable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised in accordance with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the income statement.

If a reinsurance asset is impaired, the Group reduces its carrying amount accordingly and will immediately recognise the impairment loss in the income statement. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the asset, that the Group may not receive all amounts due to it under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Gains or losses on buying retroactive reinsurance are recognised immediately in the income statement and are not deferred and amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position as appropriate.

2.5.2 Revenue recognition

Revenue is measured by the Group based on the consideration to which it expects to be entitled through contracts with customers (net of refunds). Amounts collected on behalf of third parties are excluded from revenue. When control of a service is transferred to a customer, the related revenue is then recognised.

(a) Management fee income

The Group receives administration and broking fees from non-aligned syndicates, in accordance with management agreements that are agreed on an annual basis and specify the services to be provided. These services are in relation to 'effectively managing and operating' the syndicate and are therefore provided continuously throughout the year. As a result, these services are treated as a single performance obligation. The price is fixed with no variable element and is matched against the single performance obligation. Consequently, the passage of time is used to measure the amount of fees and commission to be recognised.

(b) Underwriting agency fee income

The Group also receives commissions for the placement or underwriting of policies on behalf of other insurers. Such commissions, which are measured as a portion of the policy premium, are recognised at the later of the policy inception date or when the policy placement has been completed.

Brit also receives fees in respect of the costs and expenses of establishing and administering Lloyd's consortia and conducting the underwriting on their behalf. The services provided are classed as 'establishing and administering' the consortium and are provided continuously throughout the year. As a result, this is treated as a single performance obligation and measured in accordance with the measurement bases set out in the relevant consortium agreement.

2.5.3 Investment return

Investment income comprises all interest and dividend income and realised and unrealised gains and losses less investment management fees. Interest income is recognised using the effective interest method. Dividend income is recognised when the shareholders' right to receive the payment is established.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and cost and are recognised when the sale transaction occurs.

Unrealised gains and losses on investments are calculated as the difference between the valuation at the date of the statement of financial position and the valuation at the last statement of financial position or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current year's income statement.

2.5.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the contract. 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. A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Group 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.

2.5.5 Investments

The Group 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 Group's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Group's Directors and key managers on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimise the amount that would be paid to transfer the liability) are based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the income statement. Interest income from investments in bonds and short-term investments is recognised at the effective interest rate. Interest receivable is shown separately in the statement of financial position based on the instruments' stated rates of interest.

2 Accounting policies and basis of preparation (continued)

2.5.6 Derivatives

Derivative financial instruments include foreign exchange contracts, forward rate agreements, interest rate futures, currency and interest rate swaps and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit indices, commodity values or equity instruments. All derivatives are initially recognised in the statement of financial position at their fair value, which represents their cost. They are subsequently remeasured at their fair value, with movements in this value recognised in the income statement. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models.

All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps.

Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Group's exposure to credit risk. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions.

2.5.7 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

After initial recognition, goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to an appropriate cash generating unit (CGU) that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(b) Syndicate participation rights

Lloyd's syndicate participation rights that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are considered to have an indefinite useful life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The continuing value of the underwriting capacity is reviewed for impairment annually by reference to the expected future profit streams to be earned from the respective syndicate, with any impairment in value being charged to the income statement.

(c) Trade names

Trade names that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are considered to have an indefinite useful life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The carrying value of the trade names is reviewed for impairment annually by reference to the expected future profit streams to be earned from the CGUs to which the trade names relate, with any impairment in value being charged to the income statement.

(d) Computer software

Acquired computer software licences are capitalised based on the costs incurred to acquire and bring into use the specific software. Internal development costs that are directly associated with the production of identifiable and unique software products controlled by the Group are also capitalised where the cost can be measured reliably, the Group intends to and has adequate resources to complete development and the computer software will generate future economic benefits. All computer software costs are finite life assets and amortised on a straight-line basis over their expected useful lives, not exceeding a period of five years.

(e) Distribution channels

Distribution channels that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are deemed to be finite life assets and amortised on a straight-line basis over their expected useful economic lives, not exceeding a period of 15 years.

(f) Employee-related intangibles

A non-compete agreement in favour of the Group, signed upon acquisition of a subsidiary, and non-compete clauses in certain employee contracts acquired in business combinations have been recognised at fair value. These are considered to be finite life assets and, as such, are amortised on a straight-line basis over their expected useful economic lives, not exceeding a period of three years.

(g) Regulatory licences

Regulatory licences that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are considered to have an indefinite useful life as they do not expire and will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The carrying value of the licences is reviewed for impairment annually by reference to the expected future profit streams to be earned from the respective licences, with any impairment in value being charged to the income statement.

2.5.8 Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any impairment in value. Depreciation is calculated so as to write-off the cost over their estimated useful economic lives on a straight-line basis having regard to the residual value of each asset, as follows:

Office refurbishment costs, office machinery, furniture and equipment	5-15years
Computers, servers, data storage devices, networks and other IT infrastructure	3-5 years

The assets' residual values and useful lives are reviewed at the date of each statement of financial position and adjusted if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset and are included in the income statement. Costs for repairs and maintenance are expensed as incurred.

2.5.9 Impairment

Goodwill, syndicate participation rights, trade names and regulatory licenses are not subjected to amortisation but are tested annually for impairment as they are assets with an indefinite useful life. Other assets, except for assets arising from insurance contracts, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If the carrying value of 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.

Value in use is based on discounting cash flows at the Group's weighted average cost of capital which is loaded where significant uncertainties exist. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment reviews are made by comparing carrying value to recoverable amount.

2.5.10 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position include cash in hand, deposits held at call with banks and other short-term, highly liquid investments with a maturity of three months or less at the date of acquisition.

2 Accounting policies and basis of preparation (continued)

2.5.11 Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except where it relates to an item which is recognised in equity.

(a) Current income tax

Current income tax is the expected tax payable on the taxable profit for the period using tax rates (and laws) enacted or substantively enacted at the date of the statement of financial position and any adjustment to the tax payable in respect of previous periods. The Group calculates current income tax using current income tax rates.

(b) Deferred income tax

Where relevant deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. If the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax relating to items recognised in other comprehensive income is also recognised in other comprehensive income.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets and liabilities are not discounted.

2.5.12 Employee benefits

The Group operates a number of defined contribution schemes. It also makes payments into a number of personal money purchase pension plans. Contributions in respect of these schemes are charged to the income statement in the period to which they relate.

The Group also operates a defined benefit pension scheme. The asset recognised in the statement of financial position in respect of the defined benefit scheme is the fair value of the scheme assets less the present value of the defined benefit obligation which is determined by discounting the estimated future cash outflows. The discount rate is based on market yields at the reporting date of high-quality corporate bonds that have terms to maturity which approximate to those of the related pension liability. An asset is recognised only to the extent that it is considered available in the form of future refunds from the plan, in particular taking into consideration any minimum funding requirements that apply to the plan.

Actuarial gains and losses are recognised immediately through other comprehensive income.

The Group determines the net interest expense/income on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset.

Past service costs arising in the period are recognised as an expense at the earlier of the date when the plan amendment or curtailment occurs and the date when the Group recognises related restructuring costs or termination benefits.

The Group recognises an accrual in respect of profit-sharing, bonus plans and long service cash awards where a contractual obligation to employees exists or where there is a past practice that has created a constructive obligation.

2.5.13 Share-based payments

The fair value of equity instruments granted under share-based payment plans are recognised as an expense and spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards made at the grant date.

At the date of each statement of financial position, the Group revises its estimate of the number of equity instruments that are expected to become exercisable and it recognises the impact of the revision of original estimates, if any, in the income statement. Where the awards have been granted by a parent company and are therefore treated as equity-settled a corresponding adjustment is made to equity over the remaining vesting period.

Where the awards have been granted by the Company and are therefore treated as cash-settled, a liability is provided for settlement of the awards. The corresponding adjustment arising on a revision of the original estimate is made to that liability. In addition, the fair value of the award and ultimate expense are adjusted upon a change in the market share price of the underlying shares or at the valuation date.

2.5.14 Provisions and contingencies

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.

A contingent liability is a possible obligation that arises from past events or a present obligation that is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability. A contingent liability is disclosed but not recognised.

2.5.15 Leases

The Group leases various offices under rental contracts that are typically from 1 to 15 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Leased assets are recognised as right-of-use assets and corresponding liabilities are recorded at the date at which the leased assets are available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine this, the Group uses recent third-party financing received by the individual lessee (where available) and, if necessary, makes adjustments to reflect subsequent changes in financing conditions and other adjustments specific to the lease (for example, to reflect lease term, country of leased asset, contract currency and security).

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2 Accounting policies and basis of preparation (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a term of 12 months or less.

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Most of the extension and termination options held are exercisable only by the Group and not by the respective lessor.

2.5.16 Foreign currency translation

Items included in the financial statements of the parent and subsidiaries are measured using the functional currency which is the primary economic environment in which the entity operates. The Group presents its consolidated financial statements in US dollars which is the functional currency of the parent.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions or at the average rate for the period when this is a reasonable approximation. Substantially all of the Group's operations have US dollars as their functional currency. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in the income statement. Non-monetary assets and liabilities that are measured at historical cost denominated in a foreign currency are not retranslated.

The functional currencies of some of the Company's subsidiaries differ from the consolidated Group US dollar presentation currency. As a result, the assets and liabilities of these subsidiaries are translated on consolidation at the rates of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average rate of exchange for the period. The unrealised gain or loss resulting from this translation is recognised in other comprehensive income and transferred to a foreign currency translation reserve.

2.5.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Fair value is normally determined by reference to the fair value of the proceeds received. Any difference between the initial carrying amount and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

2.5.18 Other financial liabilities

The Group has designated its financial liabilities in respect of third-party investments in consolidated structured entities and investment funds at fair value through profit or loss (FVTPL). The fair value of the investments by independent third parties is determined by reference to the net assets of those entities, which may also require reference to the underlying net assets of other vehicles or investment funds in which those entities have invested. Gains or losses in respect to change in fair value is recognised through the income statement.

2.5.19 Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

2.5.20 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments. Loans and receivables are measured at amortised cost, using the effective interest rate method, less provision for impairment. Individual receivables known to be uncollectible are written off by reducing the carrying amount directly. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has occurred but not yet been identified and, where necessary, the estimated impairment losses are recognised in a separate provision for impairment.

2.5.21 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2.5.22 Dividend and capital distributions

Dividend and capital distributions to the Company's shareholders are recognised in the Group's financial statements in the period in which they are declared and appropriately approved.

2.5.23 Collateral

The Group receives collateral from certain reinsurers and pledges collateral where required for regulatory purposes and other funding arrangements. Collateral received in the form of cash is recognised as an asset on the statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the statement of financial position. Collateral pledged is not derecognised from the statement of financial position unless the Group defaults on its obligations under the relevant agreement.

2.5.24 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

3 Critical accounting estimates and judgements in applying accounting policies

3.1 Introduction

The Group makes various assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement.

3.2 Estimation and judgement in relation to determining the ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Group 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 incurred but not reported claims (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.

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the internal actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the Initial Expected Loss Ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate;
- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques, e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- In the event of catastrophe losses, prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question;
- The initial ultimate selections derived by the actuarial department, along with the underlying key assumptions and methodology, are discussed with class underwriters, divisional underwriting directors and the claims team at 'pre-committee' meetings. The actuarial department may make adjustments to the initial ultimates following these meetings;
- Following the completion of the 'pre-committee' meetings and peer review process within the actuarial department, the ultimate selections (actuarial estimate), assumptions, methodology and uncertainties are presented to the Reserving Committee for discussion and debate; and
- Following review of the actuarial estimate, the Reserving Committee recommends the committee estimate to be adopted in the financial statements.

The results of the external actuarial review by Brit's auditor is presented to both the Reserving Committee and the Audit Committee with key assumptions, methodologies and uncertainties also highlighted. The purpose of the external review is to provide both committees with an independent actuarial view of reserve requirements compared to the recommendations of the internal actuarial department.

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

At 31 December 2020, Brit has adopted a comprehensive approach to reserving for COVID-19 related losses, in line with its policy of reserving on a 'conservative best estimate' basis and carrying an explicit risk margin above that 'conservative best estimate'. Our detailed analysis of the principal exposed classes has resulted in net COVID-19 related losses of US$271.4m, US$14.4m of which was carried as an unexpired risk reserve recognised in respect events dated after 31 December 2020. Our main exposures to COVID-19 relate to our Contingency and Casualty Treaty accounts, with lower levels of exposure in Property, Property Treaty and Personal Accident. Significant uncertainties remain around the 2020 loss estimates given the complexities of the pandemic. Furthermore, as the pandemic continues, there remains uncertainty in relation to contingency business and events scheduled for 2021, with questions remaining as to factors such as the roll out and effectiveness of vaccines, and the roadmap to reducing or ending restrictions. We continue to monitor developments, the legal landscape and all impacted areas of our business.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third-party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Group is aware.

The carrying value at the date of the statement of financial position of gross claims reported and loss adjustment expenses and claims incurred but not reported were US$4,792.7m (2019: US$4,296.7m) as set out in Note 21 to the financial statements. The amount of reinsurance recoveries estimated at that date is US$1,493.0m (2019: US$1,345.3m).

3.3 Estimation of pipeline premiums

Written premiums include pipeline premiums of US$725.3m (2019: US$735.6m) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

3.4 Estimation involved in impairment testing of intangible assets

Intangible assets with indefinite useful lives are tested for impairment on an annual basis in accordance with IAS 36 'Impairment of Assets'. Determining the assumptions used in the test requires estimation. The calculations use projected profit streams based on cash flow forecasts and are approved by management. The indefinite useful life intangible assets of the Group consist of goodwill, syndicate participation rights, trade names and US state authorisation regulatory licenses. The carrying amount at the date of the statement of financial position was as follows: goodwill: US$45.9m (2019: US$45.9m); trade names: US$0.5m (2019: US$0.5m); syndicate participation rights: US$70.8m (2019: US$70.8m); and regulatory licenses: US$7.5m (2019: US$7.5m). As at 31 December 2020 regulatory licenses were recorded in the statement of financial position within the line 'Assets classified as held for sale'.

For further information on intangible assets, refer to Note 17.

3.5 Judgements made in respect of lease accounting

The accounting for leases under IFRS 16 requires an incremental borrowing rate to use as the discount rate for the leases. Brit has taken advantage of the practical expedient in IFRS 16 to apply a single discount rate to its portfolio of leases. The property leases do not explicitly or implicitly state interest rates, therefore unsecured borrowing rates for individual leases have been estimated by using the borrowing rate for the group in the jurisdictions that the leases are held.

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. Most of the extension and termination options held are exercisable only by the group and not by the respective lessor. Management have exercised judgement in determining whether there is a significant expectation that these options would be exercised.

3.6 Estimation and judgements in respect of fair values of 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$4,056.6m (2019: US$3,640.6m). Determining the fair value of certain investments requires estimation.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

The Group value investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated 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 IFRS 13 'Fair Value Measurement'. 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 we consider 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$182.6m (2019: US$215.2m) were classified as level three.

The classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Any change to investment valuations may affect our results of operations and reported financial condition. For further information, refer to Note 23.

3.7 Estimation of defined benefit plan assets or obligations

The amounts recognised in the consolidated financial statements in respect of the Group's defined benefit pension plan are determined using actuarial valuations, which involves making assumptions that may differ from actual developments in the future. These include the determination of the discount rate, inflation, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The carrying amount of the pension asset at the date of the statement of financial position was US$48.8m (2019: US$51.9m). For further information, refer to Note 22.

3.8 Judgements in respect of the consolidation of structured entities

The Group holds investments in two Bermuda-domiciled special purpose vehicles, Versutus Limited and Sussex Capital Limited (which is the sole investor in all but one segregated accounts and protected cells of two other special purpose vehicles, Sussex Re Limited and Sussex Capital UK PCC Limited). The Group is therefore required to determine whether these entities (or segregated accounts or protected cells thereof) meet the criteria for consolidation as defined in IFRS 10, for which the exercise of judgement is required. In particular, the Group considered the following factors to determine whether it is acting as an agent or a principal for these entities: (i) the power the Group has over them and the ability to direct relevant activities; (ii) the rights of the Group to variable returns from the Group's involvement with the entities; and (iii) the ability to use that power to affect the amount of the Group's returns.

The Group is exposed to variability of returns from the activities of these entities both through its direct investments in the vehicles and through the receipt of fee income from services provided to those entities. As at 31 December 2020, that exposure was of a significance that it indicates that the Group is acting as a principal when considered alongside additional factors including the design of the structures in which those entities have been established, their business models, and a range of other qualitative factors in determining whether the criteria for consolidation are met. Consequently, the Group has continued to consolidate these entities (or relevant segregated accounts or protected cells thereof) during the financial year.

3.9 Estimation of deferred tax asset in respect of carried forward losses

The deferred tax asset includes an amount of US$52.5m (2019: US$80.3m) which relates to carried forward tax losses in respect of Lloyd's undeclared year of account losses for 2018, 2019 and 2020 which will be taxed under the Lloyd's declaration basis in the years 2021, 2022 and 2023 respectively.

While catastrophe losses have exceeded plan in three of the last five calendar years, reflecting both elevated natural catastrophe activity and the impact of the COVID-19 pandemic, the projected syndicate results have been prepared on the basis that natural catastrophe losses return to a modelled average level.

The Group has concluded that the deferred tax asset is recoverable based on the Lloyd's approved plan for the year of account 2021 and forecast profits for the Brit Group UK entities which are available for group relief. The losses can be carried forward indefinitely and have no expiry date, however a further deferred tax asset of US$43.9m (2019: US$2.4m) has not been recognised on the basis that it is not yet possible to measure the asset reliably due to further work required to forecast results beyond 2027 and the year of account for 2024.

4 Risk management policies

This Note provides details of key risks that the Group is exposed to and explains the Group's strategies and the role of management in mitigating these risks.

4.1 Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Group is exposed to as the Group's primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being under-priced, under-reserved or subject to unforeseen catastrophe claims.

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

4.1.1 Underwriting risk

(a) Introduction

Underwriting risk is the risk that 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 Group as a result of unpredictable events.

The Group 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. Additional controls over the underwriting strategy are described in the section below.

The Group primarily writes its business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Group access to over 200 territories. Primarily using the Lloyd's platform to underwrite, subjects the Group to a number of underwriting risks. The Group relies on the efficient functioning of the Lloyd's market. If for any reason Brit Syndicates Limited (BSL) was restricted or otherwise unable to write insurance through the Lloyd's market, there would be a potentially material adverse effect on the Group's business. In particular, any damage to the brand or reputation of Lloyd's, increase in tax levies imposed on Lloyd's participants or deterioration in Lloyd's asset base when compared with its liabilities may have a material adverse effect on the Group's ability to write new business.

BSL also benefits from the ability to write business based on the Lloyd's financial rating, which allows the Group to write more business as part of the Lloyd's platform. A downgrade in Lloyd's financial strength ratings may have an adverse effect on the Group.

The Group also writes business through the Sussex Capital collateralised reinsurance platform. Through Sussex Re Limited the platform writes direct collateralised property catastrophe reinsurance in addition to providing collateralised reinsurance to Brit's Property Treaty portfolio. Please refer to section 4.11 for details on the governance structure relevant to the Sussex platform.

(b) Controls over underwriting strategy

The Board sets the Group's underwriting strategy for accepting and managing underwriting risk. The BSL Underwriting Committees (including the Ki Portfolio and Underwriting Committee) and Brit Re Management Committee meet regularly to drive the underwriting strategy and to monitor performance against the plans. The assessment of underwriting performance is all-encompassing applying underwriting key performance indicators (KPIs), technical pricing management information (MI), premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the underwriting entity Boards. The underwriting risk policy also sets out a number of controls, which are summarised below.

4 Risk management policies (continued)

The Group carries out a detailed annual business planning process for each of its underwriting units. The resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Underwriting Committees as well as by the Boards of the regulated entities. A dedicated Risk Aggregation Team also performs catastrophe modelling and Realistic Disaster Scenario (RDS) analysis on a regular basis to ensure that the Group's net losses remain within its risk appetite.

The Group has developed underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to underwrite. These are detailed and specific to underwriters and classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Group's insurance risks are written by third parties under delegated underwriting authorities, with the remaining being written through individual risk acceptances or through reinsurance treaties. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and/or portfolio managers, and regular audits are carried out.

The technical pricing framework ensures that the pricing process in the Group is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The underwriting and actuarial functions work together to maintain the pricing models 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 Group to maintain an effective rate monitoring process.

Compliance is checked through both a peer review process and, periodically, by the Group's internal audit department which is entirely independent of the underwriting units.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, policy exclusions are applied and whenever allowed by statute, maximum indemnity limits are put in place per insured event.

For Ki Syndicate 1618, business will be written via an electronic platform with risks selected by an algorithm. Notwithstanding the different approach to distribution, unless otherwise stated, all of the controls discussed above apply to business written by Syndicate 1618. Additionally, a dedicated Portfolio Management function monitors the business written on a daily basis to ensure the portfolio is balanced and aggregations are controlled. The Ki Portfolio and Underwriting Committee is responsible for governance and oversight of the portfolio and the underwriting process

(c) Underwriting risk profile

The core insurance portfolio of property, marine, energy and casualty covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The underwriting portfolio is managed to target top quartile underwriting performance and the mix of business is continually adjusted based on the current environment (including the current pricing strength of each class). This assessment is conducted as part of the business planning and strategy process which operates annually and uses inputs from the technical pricing framework. The business plan is approved by the Boards and is monitored monthly.

The Group underwrites a well-diversified portfolio across multiple regions and classes. While underlying risk and the policyholder may be situated anywhere in the world, more than 84.31% of the GWP for the Group in 2020 was sourced in London. Other business written includes that sourced through a wholly-owned service company in the United States, the business of which accounted for 11.93% of the Group's annual GWP in 2020. The Group also writes business from its office in Bermuda, with Brit Global Specialty Bermuda (BGSB) accounting for 3.43% of the Group's annual GWP in 2020. In 2020, 35% of the Group's GWP was reinsured to third parties.

(d) Geographical concentration of premium

The Group enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Group to benefit from a wide geographic diversification of risk. The four principal locations of the Group's policyholders are the United States, UK, Europe and Canada. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

	Gross premiums written US$m	Net premiums written US$m
2020		
United States	**1,335.2**	**962.2**
United Kingdom	**160.4**	**108.7**
Canada	**100.7**	**69.2**
Europe (excluding UK)	**54.9**	**35.6**
Other (including worldwide)	**773.2**	**599.9**
	2,424.4	**1,775.6**
2019		
United States	1,207.3	863.5
United Kingdom	141.0	97.1
Canada	103.8	70.4
Europe (excluding UK)	69.5	44.7
Other (including worldwide)	771.9	580.5
	2,293.5	1,656.2

The nature of the London Market business is such that the insureds and reinsureds are often operating on a multi-territory or worldwide basis and hence coverage is often provided on a worldwide basis. Premiums written on a multi-territory or worldwide basis are included in 'Other' in the table above.

(e) Portfolio mix

The Group underwrites business in a wide variety of classes. The breakdown of premium before reinsurance by principal lines of business is summarised below:

	US$m	**2020 Gross premiums written %**	US$m	2019 Gross premiums written %
London – Direct	**1,411.6**	**58.2%**	1,361.7	59.4%
London – RI	**479.2**	**19.8%**	427.5	18.6%
Overseas distribution	**437.6**	**18.0%**	462.0	20.1%
Discontinued	**5.0**	**0.2%**	11.2	0.5%
Other	**91.0**	**3.8%**	31.1	1.4%
	2,424.4	**100%**	2,293.5	100%

4 Risk management policies (continued)

	US$m	2020 Gross premiums written %	US$m	2019 Gross premiums written %
London – Direct	**1,411.6**	**58.2%**	1,361.7	59.4%
Financial and Professional Liability	**260.1**	**10.7%**	224.2	9.8%
Programmes and Facilities	**528.7**	**21.8%**	577.8	25.2%
Property	**287.7**	**11.9%**	259.1	11.3%
Ambridge	**27.8**	**1.1%**	46.7	2.0%
Specialty	**307.3**	**12.7%**	253.9	11.1%
London – RI	**479.2**	**19.8%**	427.5	18.6%
Casualty Treaty	**242.6**	**10.0%**	236.6	10.3%
Property Treaty	**236.6**	**9.8%**	190.9	8.3%
Overseas distribution	**437.6**	**18.0%**	462.0	20.1%
BGSU	**289.7**	**11.9%**	305.9	13.3%
BGSB	**83.1**	**3.4%**	110.1	4.8%
Scion	**64.8**	**2.7%**	46.0	2.0%
Discontinued	**5.0**	**0.2%**	11.2	0.5%
Discontinued London	**5.5**	**0.2%**	11.2	0.5%
BGSU Discontinued	**(0.5)**	**0.0%**	0.0	0.0%
Other	**91.0**	**3.8%**	31.1	1.4%
Other underwriting and corporate	**91.0**	**3.8%**	31.1	1.4%
	2,424.4	**100%**	2,293.5	100%

The Group underwrites a mix of both insurance and reinsurance, long and short-tail business across a number of geographic areas which results in diversification within the Group's portfolio. The business mix is monitored on an ongoing basis.

Underwriting risk is mainly driven by the Group's US catastrophe exposure. Casualty Treaty is also a driver due to its long-tail exposure. The risk profile of Brit's underwriting portfolio is set out in more detail in the sections below.

(i) London – Direct

(1) Financial & Professional (FINPRO)

Directors & Officers	Coverage provided to both directors and officers and companies for personal liability or securities-related lawsuits.
Financial institutions	Coverage of financial institutions for risks including internal and external fraud, and liability to customers, shareholders and regulators.
Cyber, Privacy and Technology	Coverage of first- and third-party risks relating to network security, privacy and data protection risks.
Healthcare	Coverage of hospitals, allied health and long-term care liability, predominantly in the US.
US Professional Indemnity	Coverage for professional negligence, errors and omissions, provided on both an open market and a binding authority basis.

Financial and professional lines are typically long-tailed, meaning that on average the claims are not settled for several years after the expiry of the policy, which increases exposure to claims inflation. Other key risks relate to increasing claim frequency due to global recessions or systemic malpractice, as well as an increasing prevalence of cybersecurity risk. This portfolio is also exposed to the risk of latent claims arising from risks that were not envisaged at the time of writing the policy.

(2) Facilities

Property Facilities	*Coverage of commercial and residential properties, including high value homes, and for financial institutions, loan servicers and property investors, including lender-placed hazard and flood protection.*
Accident and Health	*Coverage for personal accident and medical expenses, kidnap and ransom, and contingency.*
Transport	Coverage of commercial automobile physical damage and motor truck cargo across the US and Canada.
Long Tail Facilities	*Coverage of legal expenses for individuals, companies and affinity groups worldwide, and of professional negligence, errors and omissions for small and medium-sized enterprises in the US and Canada.*

The Facilities portfolio consists of business written on a delegated authority basis. Property Facilities is exposed to catastrophe claims, particularly US windstorms, earthquakes, floods and terrorist events, and to an increased frequency of fire and weather-related events.

Accident and Health offers diversification due to low correlation with other business lines. Personal accident has the potential to suffer from large losses due to a high concentration of multiple deaths from a catastrophe or large claims from highly valued insured individuals. Medical expense claims are subject to high inflationary costs and may experience a high claim frequency. Contingency classes have exposure to multiple claims from a single event.

The key risks relating to Long Tail Facilities lie with increasing claim frequency due to global recessionary events or systemic malpractice.

(3) Property

Political Risk and Trade Credit	Covers non-payment/performance of counterparties and confiscation, expropriation, nationalisation, deprivation, sequestration or forced abandonment of overseas assets.
Political Violence	Covers physical damage and business interruption losses due to perils including terrorism, riots, war, chemical, biological and/or radiological attacks.
Open Market and Worldwide Property	Coverage of commercial property in the US and internationally.
UK Property	UK property package covers for individuals and small or medium sized enterprises.
Specie and Private Client	Coverage of fine art, specie and private client risks.

Brit provides property cover on a worldwide basis, with the largest exposures in the US. The open market, UK and worldwide property lines are exposed to catastrophe claims, particularly windstorms, earthquakes, floods and terrorist events, and to an increased frequency of fire and weather-related events. The Political Risk and Political Violence classes are exposed to individual large losses arising from terrorist attacks or state action.

(4) Ambridge

Ambridge is a specialised managing general underwriter of complex risks, whose core products are Transactional Insurance, Complex Management Liability Insurance and Intellectual Property Insurance.

(5) Specialty

Marine	Coverage for cargo, hull, marine war and marine liability.
Energy	*Coverage for Upstream and Midstream operations, including renewables.*
EL & PL	*Cover for UK and international liability business including Employers, Public, Products and Environmental Liability across a range of territories.*
Space	Coverage for satellites at both launch and in orbit.

4 Risk management policies (continued)

The Specialty portfolio includes a diverse range of business lines. However, the portfolio is exposed to large losses on individual risks, for example due to the loss of marine vessels or offshore oil platforms. The EL and PL portfolio is exposed to large losses resulting from bodily injury claims, and the risk of latent claims arising from risks that were not envisaged at the time of writing the policy. Outwards reinsurance is purchased to mitigate this large loss risk.

(ii) London Reinsurance

Property treaty	Catastrophe excess of loss, risk excess of loss reinsurance and retrocession.
Casualty treaty	*Casualty and accident treaty reinsurance. Worldwide portfolio, writing predominantly non-proportional reinsurance (including retrocession) covering all the principal casualty classes as well as Personal Accident and other accident classes. These include Property Terror, Products Recall, Credit/Bond/Surety, Political Risks and Contingency.*

The key exposures for Property Treaty are US windstorms and Californian earthquakes. Property Treaty also has exposures to Japanese earthquakes and European windstorms.

The Casualty Treaty business is exposed to man-made catastrophe claims such as terrorism, increased claim activity in the event of an economic downturn and the potential for latent claims which were not foreseen at the time the policies were underwritten. This division contains the longest tailed liabilities the Group holds, i.e. there can be a significant delay between the notification and final settlement of a claim. This delay can result in the final settlement being subject to significant claims inflation.

(iii) Overseas Distribution

Brit Global Specialty USA (BGSU)	BGSU underwrites a range of E&S, admitted and reinsurance cover with a focus on property, casualty and marine.
Brit Global Specialty Bermuda (BGSB)	Property and casualty treaty reinsurance and retrocession business.
Scion	Underwrites commercial property, E&S co-tenancy risk, and E&S specialist casualty insurance, focusing on excess liability (including Transportation) and primary general liability.

The US portfolio is well-diversified, but is exposed to the risk of US catastrophe claims and individual large losses. A downturn in the US economy could also lead to increased claims activity.

The Bermuda property treaty business is exposed to natural catastrophe events, particularly US windstorms and earthquakes. The Bermuda casualty treaty business is exposed to man-made catastrophe claims such as terrorism, increased claims activity in the event of an economic downturn and the potential for latent claims which were not foreseen at the time the policies were underwritten.

(iv) Aggregate exposure management

The Group closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Group's reinsurance programmes.

The Group's catastrophe risk tolerance is reviewed and set by the boards on an annual basis. The last review of catastrophe risk tolerances was in March 2020.

Overall, the Group, for major catastrophe events (as measured by World Wide All Perils net, 1-in-5, 1-in-30 and 1-in-250 Aggregate Exceedance Probability (AEP)) has tolerances for each return period expressed as a percentage of the Brit Limited Group net tangible assets.

Stress and scenario tests are also run, such as Lloyd's and internally developed realistic disaster scenarios (RDSs). Below are the key RDS losses to the Group for all classes combined (unaudited):

	Estimated Industry loss US$m	Gross US$m	Modelled Group loss at 1 October 2020 (Note 1) Net US$m	Gross US$m	Modelled Group loss at 1 October 2019 (Note 1) Net US$m
Gulf of Mexico windstorm	111,000	**1,001**	**148**	827	151
Florida Miami windstorm	131,000	**1,081**	**95**	868	128
US North East windstorm	81,000	**1,016**	**183**	845	149
San Francisco earthquake	80,000	**1,496**	**442**	1,038	191
Japan earthquake	77,664	**382**	**201**	291	142
Japan windstorm	16,504	**80**	**50**	78	47
European windstorm	29,357	**99**	**66**	96	59

Note 1: At 31 December 2020 foreign exchange rates.

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be non-modelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

(v) Sensitivity to changes in net claims ratio

The Group profit/loss on ordinary activities before taxation is sensitive to an independent 1% change in the net claims ratio (excluding the effect of foreign exchange on non-monetary items) for each class of business as follows:

		US$m	Movement in profit year ended 2020 %	US$m	Movement in profit year ended 2019 %
London – Direct	FINPRO, Progs and Facilities, Property, Ambridge, Specialty	**9.7**	**57.1%**	9.2	56.3%
London – Ri	Property and Casualty Treaty	**3.4**	**19.7%**	3.0	18.5%
Overseas Distribution	BGSB, BGSU, Scion	**3.1**	**18.0%**	3.0	18.3%
Discontinued	Discontinued London, BGSU Discontinued	**0.2**	**1.3%**	0.6	3.4%
Other	Other Underwriting and Corporate	**0.7**	**3.9%**	0.6	3.5%
Total		**17.1**	**100%**	16.4	100%

Subject to taxation, the impact on shareholders' equity would be the same as that on profit following a change in the net claims ratio.

4 Risk management policies (continued)

4.1.2 Reinsurance

The Group purchases reinsurance to manage its exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Group to mitigate exposure to insurance losses, reduce volatility of reported results and protect capital.

Proportional quota share reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregation of losses. Quota share reinsurance is also used to manage the Group's net exposure to classes of business where the Group's risk appetite is lower than the efficient operating scale of the class of business on a gross of reinsurance basis. These placements are reviewed on the basis of market conditions.

The Group also has in place a comprehensive programme of excess of loss reinsurances to protect itself from severe size or frequency of losses:

- Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
- Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Group's risk appetite during the business planning exercise.
- An aggregate catastrophe excess of loss cover is in place to protect the Group against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps, catastrophe bonds and industry loss warranties where they are a cost-efficient means to ensure that the Group remains within its catastrophe risk appetite.
- In December 2020 Brit issued a catastrophe bond which provides US$300m of reinsurance protection to Syndicate 2987. The bond has a four-year term and covers losses from US named windstorms and US earthquakes. The bond was issued in the UK via Sussex Capital.
- Given the fundamental importance of reinsurance protection to the Group's risk management, the Group has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Outwards Reinsurance Committee oversees the purchase of reinsurance.

The Group remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Group.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.
- Basis risk on reinsurance which responds to something other than Brit's Ultimate Net Loss.

These risks are managed through a combination of techniques and controls including risk aggregation management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

4.1.3 Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2020 from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Group as the reserves for unpaid losses represent the largest component of the Group's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of Syndicate 2987 and 2988's reserving risk, and the Brit Reinsurance (Bermuda) Limited Management Committee performs a similar function for Brit Reinsurance (Bermuda) Limited. The Ki Reserving Committee will be responsible for managing Syndicate 1618's reserving risk.

The Group has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims adjusters validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Group's claims policy. Case reserves are set for notified claims using the experience of specialist claims adjusters, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Group's experienced actuaries to establish the IBNR reserve. These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and risk aggregation management to ensure that they have a full understanding of the emerging claims experience across the Group. Further details on the actuarial methods used can be found in Note 21.

The Group's 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 Reserving Committees and Brit Reinsurance (Bermuda) Limited Management Committee sign-off as part of the formal governance arrangements for the Group. The estimate agreed by the committees is used as a basis for the consolidated financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by Brit's auditor.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Group but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Group's reserves are considered to be claims from the long-tailed direct and long-tailed reinsurance classes. The issues contributing to this heightened uncertainty are common to all entities which write such business. Further details on the reserve profile and claims development tables can be found in Note 21.

4.2 Investment risk management

4.2.1 Introduction

This section describes the Group'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 4.3), investment credit risk (which is covered in section 4.4) and liquidity risk (which is covered in section 4.5).

4.2.2 Investment governance framework

Investment risk is managed in line with the elements of the Risk Management Framework (RMF) – identification, measurement and management. 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 Group and individual entities within the Group.

4 Risk management policies (continued)

The BSL Investment Committee and the Brit Reinsurance (Bermuda) Limited Management Committee have been mandated to review, advise and make recommendations to the respective boards on investment strategy with a view to optimising investment performance. The investment strategy is executed through outsourced investment management agreements, which is in line with prevailing regulations, with Hamblin Watsa Investment Counsel Limited (HWIC) and a range 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. An Investment Operations Committee oversees the operational risk that is relevant to the investment management function.

Information is provided at least quarterly covering portfolio composition, performance, forecasting and the results of stress and scenario tests. Any operational issues and breaches to the risk appetite framework are reported to the Risk Oversight Committee and the Board.

4.2.3 Risk tolerance

Investment risk tolerances are set by the Board, defining the appetite to investments, solvency risk, concentration risk, credit quality, currency risk and liquidity risk. The appetite to these elements of investment risk is derived from the overall risk appetite and business strategy 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 strategic asset allocation.

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.

4.2.4 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 total assets of each underwriting entity within the Group are sought to be held in proportion to the currencies of that entity's technical provisions. For each Group underwriting entity, a solvency matched benchmark is calculated. This benchmark is the cash flow profile for investments which would minimise the sensitivity of the Group's solvency position to changes in interest and exchange rates. The Group seeks to implement this through the use of cash, investments and foreign exchange forward contracts in the respective currencies. The investment guidelines for each entity stipulate duration limits and the positioning and sensitivity for both the asset and solvency position is reported quarterly.

4.2.5 Investment management

The investment management strategy is delivered, at the entity level, through outsourced Investment Management Agreements (IMAs) with HWIC and a range of other third-party investment managers. The IMAs prescribe the investment parameters within which HWIC are permitted to make asset allocation decisions on behalf of the respective entities.

Each of the Group's investing entities is governed by separate investment policies; these detail the parameters, roles and responsibilities relating to the management of each entity's investment portfolio.

4.3 Market risk

4.3.1 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 section 4.4 Credit risk.

4.3.2 Interest rate risk

Introduction

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 Group is exposed to interest rate risk through its investment portfolio, borrowings 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 subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

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

Duration	1 year or less US$m	1 to 3 years US$m	3 to 5 years US$m	Over 5 years US$m	Equities US$m	Total US$m
At 31 December 2020						
Cash and cash equivalents	**775.7**	**–**	**–**	**–**	**–**	**775.7**
Financial investments	**2,228.8**	**553.0**	**564.1**	**334.0**	**376.6**	**4,056.5**
	3,004.5	**553.0**	**564.1**	**334.0**	**376.6**	**4,832.2**
At 31 December 2019						
Cash and cash equivalents	520.1	–	–	–	–	520.1
Financial investments	2,367.5	455.3	232.2	181.7	403.9	3,640.6
	2,887.6	455.3	232.2	181.7	403.9	4,160.7

The duration of the investment portfolio is set within an allowable range relative to the targeted duration and monitored on a quarterly basis.

As the claims liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates. Therefore, there is a balance to be struck between targeting a longer duration to protect the solvency position against movements in interest rates, and targeting a shorter duration that will reduce the possible volatility around the income statement.

Sensitivity to changes in investment yields

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

Impact on profit before tax	2020 US$m	2019 US$m
Increase		
25 basis points	**(17.7)**	(11.6)
50 basis points	**(35.3)**	(23.2)
100 basis points	**(70.6)**	(46.5)
Decrease		
25 basis points	**17.6**	11.5
50 basis points	**35.1**	22.9
100 basis points	**70.2**	45.9

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4 Risk management policies (continued)

4.3.3 Currency risk

Introduction

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Group.

The Group matches assets to liabilities for each of the main currencies. Group 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 Group's main currencies, converted to US dollars, is set out in the tables below:

	USD US$m	GBP conv. US$m	CAD $ conv. US$m	EUR € conv. US$m	AUS $ conv. US$m	Total conv. US$m
At 31 December 2020						
Total assets	**6,294.9**	**1,079.8**	**769.8**	**323.3**	**79.9**	**8,547.7**
Total liabilities	**4,866.7**	**1,201.3**	**346.2**	**331.6**	**87.6**	**6,833.4**
Net assets/(liabilities) excluding the effect of currency derivatives	**1,428.2**	**(121.5)**	**423.6**	**(8.3)**	**(7.7)**	**1,714.3**
Adjustment for foreign exchange derivatives	**127.9**	**88.8**	**(314.9)**	**78.1**	**20.1**	**–**
Adjusted net assets	**1,556.1**	**(32.7)**	**108.7**	**69.8**	**12.4**	**1,714.3**
At 31 December 2019						
Total assets	5,490.8	1,081.0	700.2	330.7	69.9	7,672.6
Total liabilities	4,442.5	1,196.7	324.3	306.3	82.9	6,352.7
Net assets/(liabilities) excluding the effect of currency derivatives	1,048.3	(115.7)	375.9	24.4	(13.0)	1,319.9
Adjusted for foreign exchange derivatives	81.2	226.2	(321.3)	(4.4)	18.3	–
Adjusted net assets	1,129.5	110.5	54.6	20.0	5.3	1,319.9

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

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Group may also choose to utilise foreign currency derivatives to manage the risk of reported losses due to changes in foreign exchange rates. The details of all foreign currency derivative contracts entered into are given in Note 24.

As a result of the accounting treatment for non-monetary items, the Group may also experience volatility in its income statement due to fluctuations in exchange rates. The degree to which derivatives are used is dependent on the prevailing costs versus the perceived benefit to shareholder value from reducing the chance of a reported loss due to changes in foreign exchange rates.

In accordance with IFRS, non-monetary items are recorded at original transaction rates and are not revalued at the reporting date. These items include unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums. This means these amounts in the statement of financial position are carried at a different exchange rate to the remaining assets and liabilities, with the resulting exchange differences that are created being recognised in the income statement. The Group considers this to be a timing issue which can cause volatility in the income statement.

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage movement in the relative strength of the US dollar against the value of Sterling, Canadian dollar, Australian dollar and Euro simultaneously, after taking into consideration the effect of hedged positions and items recorded as non-monetary assets and liabilities under IFRS. The analysis is based on the information at 31 December 2020.

Impact on profit before tax	2020 US$m	2019 US$m
US dollar weakens		
10% against other currencies	**23.0**	26.6
20% against other currencies	**46.1**	53.3
US dollar strengthens		
10% against other currencies	**(23.0)**	(26.6)
20% against other currencies	**(46.1)**	(53.3)

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4.3.4 Other price risk

Introduction

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 Group 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. Credit risk on investments is discussed in the following section of this Note.

Sensitivity to changes in other price risk

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

Impact on profit before tax	2020 US$m	2019 US$m
Increase in fair value		
10%	**64.1**	69.0
20%	**128.2**	137.9
30%	**192.3**	206.9
Decrease in fair value		
10%	**(64.1)**	(69.0)
20%	**(128.2)**	(137.9)
30%	**(192.3)**	(206.9)

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4 Risk management policies (continued)

4.4 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 in a timely manner. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Group;
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Group;
- Investments: through the issuer default of all or part of the value of a financial instrument or the market value of that instrument; and
- Cash and cash equivalents: through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Group.

4.4.1 Investment credit risk

Investment credit risk management process

The Group Board has overall responsibility for investment credit risk. The investment guidelines and investment policy set out clear limits and controls around the level of investment credit risk. The Group 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 Group's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through aggregate investment risk limits. The UK Investment Committee chaired by Simon Lee, a non-executive Director of Brit Syndicates Limited, is responsible for the immediate oversight of the Group's UK investments and the Brit Reinsurance (Bermuda) Limited board is responsible for the immediate oversight of the Group's Bermuda investments.

Investment credit risk profile

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

	AAA US$m	AA US$m	A US$m	P-1 US$m	P-2 US$m	BBB and below US$m	Equities US$m	Not rated US$m	Total US$m
At 31 December 2020									
Financial investments	**1,663.9**	**337.9**	**813.2**	**–**	**–**	**471.3**	**376.6**	**393.6**	**4,056.5**
Derivative contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14.9**	**14.9**
Cash and cash equivalents	**174.6**	**103.6**	**385.5**	**19.7**	**38.4**	**53.9**	**–**	**–**	**775.7**
	1,838.5	**441.5**	**1,198.7**	**19.7**	**38.4**	**525.2**	**376.6**	**408.5**	**4,847.1**
At 31 December 2019									
Financial investments	1,469.4	347.6	577.7	–	–	478.4	403.9	363.6	3,640.6
Derivative contracts	–	–	–	–	–	–	–	15.7	15.7
Cash and cash equivalents	150.1	0.8	303.8	7.8	19.0	31.7	–	6.9	520.1
	1,619.5	348.4	881.5	7.8	19.0	510.1	403.9	386.2	4,176.4

The table above gives an indication of the level of credit worthiness of assets that are most exposed to credit risk. The ratings are mainly sourced from Standard & Poor's and where these are not available an equivalent rating agency.

4.4.2 Insurance credit risk

Insurance credit risk management process

The Credit Committee chaired by the Group Chief Financial Officer is responsible for the management of credit risk arising from insurance activities.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Credit Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current balance sheet exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the Risk Oversight Committee and the Board at least quarterly.

Insurance credit risk profile

The summary of the insurance credit risk exposures for the Group is set out in the tables below:

	AAA US$m	AA US$m	A US$m	Collateral US$m	Not rated US$m	Total US$m
At 31 December 2020						
Reinsurance assets	**5.7**	**860.8**	**461.1**	**144.2**	**21.2**	**1,493.0**
Insurance receivables	**–**	**–**	**–**	**–**	**1,152.8**	**1,152.8**
	5.7	**860.8**	**461.1**	**144.2**	**1,174.0**	**2,645.8**
At 31 December 2019						
Reinsurance assets	3.4	785.8	327.4	174.0	54.7	1,345.3
Insurance receivables	–	–	–	–	1,091.3	1,091.3
	3.4	785.8	327.4	174.0	1,146.0	2,436.6

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Group in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Group in a timely manner).

As at 31 December 2020, collateral of US$144.2m (2019: US$174.0m) had been drawn against reinsurance assets.

The following table shows movements in impairment provisions during the year:

	Impairment provision against reinsurance assets US$m	Impairment provision against insurance receivables US$m
2020		
Opening provision at 1 January	**–**	**11.0**
Strengthening for the year	**0.5**	**(9.1)**
Net foreign exchange differences	**–**	**(0.8)**
Closing provision at 31 December	**0.5**	**1.1**
2019		
Opening provision at 1 January	–	11.7
(Release)/strengthening for the year	–	0.3
Net foreign exchange differences	–	(1.0)
Closing provision at 31 December	–	11.0

4 Risk management policies (continued)

The following table shows the amount of insurance receivables past due but not impaired at the end of the year:

	2020 US$m	2019 US$m
0-3 months past due	**36.6**	16.2
4-6 months past due	**6.5**	29.7
7-9 months past due	**(0.3)**	0.6
10-12 months past due	**0.6**	0.4
More than 12 months past due	**5.3**	2.5
	48.7	49.4

4.5 Liquidity risk

Liquidity risk is the risk that the Group 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 Group faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Group 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 Group also limits the amount of investment in illiquid securities in line with the liquidity policy set by the Boards. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled realistic disaster scenarios. Contingent liquidity also exists in the form of a Group revolving credit facility.

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of the Group into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates. Borrowings are stated at their nominal value at maturity.

31 December 2020	Statement of financial position US$m	Fair values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Assets							
Reinsurance assets	**1,764.1**	**718.2**	**494.2**	**255.3**	**296.4**	**–**	**1,764.1**
Financial investments	**4,056.6**	**2,228.9**	**553.0**	**564.1**	**334.0**	**376.6**	**4,056.6**
Derivative contracts	**14.9**	**14.3**	**–**	**0.4**	**0.2**	**–**	**14.9**
Insurance receivables	**1,152.8**	**1,152.8**	**–**	**–**	**–**	**–**	**1,152.8**
Cash and cash equivalents	**775.7**	**775.7**	**–**	**–**	**–**	**–**	**775.7**
	7,764.1	**4,889.9**	**1,047.2**	**819.8**	**630.6**	**376.6**	**7,764.1**

31 December 2020	Statement of financial position US$m	Undiscounted values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Liabilities							
Insurance contract liabilities	**5,813.0**	**2,342.6**	**1,497.9**	**816.9**	**1,155.6**	**–**	**5,813.0**
Derivative contracts	**9.2**	**9.2**	**–**	**–**	**–**	**–**	**9.2**
Borrowings	**314.5**	**130.0**	**–**	**–**	**184.5**	**–**	**314.5**
Other financial liabilities	**62.0**	**–**	**–**	**–**	**–**	**62.0**	**62.0**
Insurance and other payables	**620.7**	**620.7**	**–**	**–**	**–**	**–**	**620.7**
	6,819.4	**3,102.5**	**1,497.9**	**816.9**	**1,340.1**	**62.0**	**6,819.4**

31 December 2019	Statement of financial position US$m	Fair values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Assets							
Reinsurance assets	1,345.3	404.9	435.4	233.9	271.1	–	1,345.3
Financial investments	3,640.6	2,367.5	455.3	232.2	181.7	403.9	3,640.6
Derivative contracts	15.7	15.3	–	–	0.4	–	15.7
Insurance receivables	1,091.3	1,091.3	–	–	–	–	1,091.3
Cash and cash equivalents	520.1	520.1	–	–	–	–	520.1
	6,613.0	4,399.1	890.7	466.1	453.2	403.9	6,613.0

31 December 2019	Statement of financial position US$m	Fair values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Liabilities							
Insurance contract liabilities	4,296.7	1,190.6	1,321.0	749.7	1,035.4	–	4,296.7
Derivative contracts	14.2	14.2	–	–	–	–	14.2
Borrowings	316.2	140.0	–	–	182.9	–	322.9
Other financial liabilities	75.5	–	–	–	–	75.5	75.5
Insurance and other payables	676.0	676.0	–	–	–	–	676.0
	5,378.6	2,020.8	1,321.0	749.7	1,218.3	75.5	5,385.3

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

The BSL Operations Committee, chaired by the Group Chief Operating Officer, is a key governance committee reporting to the Executive Committee. The BSL Operations Committee is responsible for managing operational risk in line with the operational risk policy and the risk tolerance and management appetite limits set by the BSL Board and management respectively. Each individual risk committee is provided with relevant operational risk updates and these committees include operational risk owners within executive management who actively manage operational risk within their respective areas (such as Underwriting, Claims, Investments and Finance).

An operational risk management framework is in place to ensure an appropriate standard approach is taken to managing operational risk across the Group. 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 Brit'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 risk management framework; and
- Operational risk management training and awareness.

A conduct risk framework is in place across the Group to ensure Brit's products and services continue to meet the needs of our customers.

4 Risk management policies (continued)

4.7 COVID-19

The 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, with our Contingency (Event Cancellation) and Casualty Treaty books being the most impacted. The pandemic has also caused significant volatility in the financial markets. Although investment markets have substantially recovered from significant falls experienced in H1 2020, interest rates remain at depressed levels given the economic outlook.

The Group has managed the risks associated with COVID-19 in line with the requirements of its risk management framework and policies.

- **Operational risk**

  COVID-19 has caused a temporary shift from an office-based working environment to a remote working environment for all staff since 18 March 2020. Brit and its outsourced service providers have adapted well. Operational performance has generally been strong.

  All key business services have continued to operate with no material impact from COVID-19. The investment in 2019 in Microsoft Office 365 and the decision to rollout laptops to all full-time employees has made working remotely relatively seamless. Underwriting can be managed through PPL, Whitespace and reinsurance trading platforms, and underwriting and claims staff contact details are available online or via the Brit App. The Claims team continues to service our policyholders in these challenging circumstances.

  We immediately put in place support mechanisms for our employees and we continue to communicate regularly to ensure that people feel engaged and supported. We regularly monitor and report on the performance of controls and operational effectiveness. The ongoing monitoring of the operational risk profile has not identified any material concerns or failings.

- **Insurance risk**

  COVID-19 has resulted in additional claims to the Group, principally relating to event cancellation covers. The Group has a rigorous process for establishing reserves for insurance claim liabilities, including those associated with COVID-19. However, significant uncertainties remain around loss estimates given that the pandemic is ongoing. We also continue to monitor the potential for claims arising indirectly from the pandemic. For example, due to the global recession which may lead to an increased risk of moral hazard, fraud and a more litigious environment generally.

  The underwriting portfolio is actively managed to reflect market developments, and action has been taken to ensure Brit is appropriately positioned for both the pandemic and the recessionary economic conditions. The Group is now applying communicable disease exclusions across the vast majority of its business.

- **Investment and Market risk**

  Financial markets have experienced volatility in 2020. The investment portfolio is actively managed to reflect market developments, and action was taken to ensure Brit's portfolio is appropriately positioned for the recessionary economic conditions and to take advantage of opportunities in asset prices where these arose. The volatility in investment returns experienced over the course of 2020 is within the range of stress and scenario tests carried out by the Group.

- **Credit risk**

  COVID-19 has caused economic disruption around the world with many businesses and individuals forced to cease business activity in light of government lockdowns. As at 31 December 2020, the Group has not seen a material increase in defaults but continues to monitor this closely.

- **Solvency and Liquidity risk**

  As at 31 December 2020, the Group held a surplus of US$341.0m over its management capital requirements. All regulatory capital requirements have been complied with by the Group's individual insurance subsidiaries throughout 2020. It should be noted that our regulatory capital requirements calculation as at 31 December 2020 included an allowance for the uncertainties associated with COVID-19 as described above.

Brit continues to benefit from the support of the wider Fairfax Group, with capital contributions of US$524.0m provided during the year to largely strengthen the resilience of the statement of financial position to further shocks.

Following the COVID-19 outbreak, the Group conducted stress testing of its underwriting subsidiaries' liquidity resources, in order to assess their ability to continue making claims payments as they fell due. This stress testing demonstrated their continued ability to access sufficient liquidity, even in severe stress scenarios. At 31 December 2020, the Group held US$2,623.5m of cash and short-dated government debt securities, and US$190.0m undrawn on its RCF.

4.8 The United Kingdom's exit from the EU (Brexit)

The Brexit transition period ended on 31 December 2020 with a Trade and Cooperation Agreement (TCA) between the UK and the EU being agreed on 24 December 2020. The TCA came into effect on 1 January 2021 replacing the existing arrangements under the transition period. The key risk to Brit was considered to be the successful completion of the Part VII transfer to Lloyd's Brussels as Brit'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 Brit has been successfully writing EU business via Lloyd's Brussels since 1 January 2019. Further details of the Part VII transfer are given in Note 21(c).

4.9 Emerging risks

Brit undertakes a formal emerging risk review annually with the results reported to the Risk Oversight Committee and included in the Own Risk & Solvency Assessment (ORSA) report. The review is an important part of the risk identification aspect of the RMF and includes horizon scanning of the internal and external risk environment to identify potential new or developing risks to Brit. These risks can then be included in the risk register and managed appropriately as required.

The emerging risk review has previously identified risks such as the United Kingdom's exit from the EU (Brexit) and cyber risk. These risks have been managed throughout their development and are now monitored as part of the business as usual risk management process.

4.9.1 Climate Change

Climate change has been recognised as an emerging risk in the ORSA since 2014 and has been an area of focus since having been identified as a high priority by Brit's 2018 emerging risks analysis. Its potential impact on the insurance industry is an area of focus for the wider insurance market and its regulators.

The financial risks to insurers may include the potential for increased frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. This year has seen the most active Atlantic hurricane season on record, with 30 named storms being recorded. Of these 12 made landfall in the US, six of which were category three hurricane strength or higher, both statistics either equalling or setting new records. 2020 was also a record year for wildfires, with California seeing its first ever 'gigafire', a blaze that burns at least a million acres of land.

Climate change specific tests and scenarios have been included in both ORSAs and Brit's Solvency II internal models. Brit is managing the risks associated with climate change in line with the RMF and is embracing the latest regulatory guidance. This will continue to be an area of management, Risk Committee and Board focus, with a multi-disciplinary Climate Change Risk Working Party having been set up to consider the financial risks associated with Climate Change.

The three main areas of risk identified for Brit are natural catastrophes, liability claims and investment losses:

- **Natural catastrophe risks** relating to climate change are the risk of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims to Brit. We continuously monitor scientific studies, regularly review the completeness of existing models and the application of the Brit view of risk. Brit's exposure to natural catastrophe risks is monitored and on an ongoing basis by the Risk Management Function.
- Climate change could result in additional **liability claims**. For example, there is the potential for claims against firms for their contribution to climate change. While such claims have not generally been successful to date, there remains an ongoing risk. Brit's exposure is limited through limits on gross underwriting exposure and through the purchase of reinsurance.
- **Investment losses** have the potential to arise from exposure to industries perceived to be contributing to climate change. Brit has a diversified investment portfolio, with limits on exposure to individual issuers. Brit is developing metrics to strengthen its understanding of the potential impacts of climate change on its investments.

Brit also actively considers the potential implications of climate change and sustainability on its investment and underwriting strategies, how it should engage more widely on environmental and ethical issues, and its own sustainability initiatives.

4.10 Capital management

Brit defines management entity capital as the amount of capital that the board of each underwriting entity determines that it should hold, taking into account the requirements of shareholders, regulators, policyholders, and the boards' solvency risk appetite. The capital policy is set by the entity and Group boards. Management entity capital requirements are in excess of capital requirements under the Solvency II capital regime, which became effective on 1 January 2016.

The capital requirements are based on the output of the internal model which reflects the risk profile of the business.

The capital policy requires capital to be held well in excess of regulatory minimum requirements, underpinning Brit's financial strength. The policy ensures the capital adequacy of the Group as a whole, and each entity, through an efficient capital structure. Brit proactively responds to developments in the financial environment to ensure its capital strength is maintained while optimising risk adjusted returns.

The Group's available capital consists of net tangible assets, subordinated debt, letters of credit and contingent funding. This amounted to US$1,881.3m as at 31 December 2020. This represented a surplus of US$341.0m over the management capital requirements.

All regulatory capital requirements have been complied with during the year by the Group's individual insurance subsidiaries.

The Lloyd's market is subject to the solvency and capital adequacy requirements of the Prudential Regulation Authority (PRA). Any regulatory intervention by the PRA in respect of Lloyd's may adversely affect the Group. The PRA may impose more stringent requirements on Lloyd's which may result in higher capital requirements or a restriction on trading activities for entities within the Group. If Lloyd's fails to satisfy its solvency test in any year, the PRA may require Lloyd's to cease trading and/or its members to cease or reduce their underwriting exposure, which may result in a material adverse effect to the Group's reputation, financial condition and results of operations.

During 2020, Brit primarily underwrote through the Group's wholly-aligned Lloyd's Syndicate 2987 which benefits from the Lloyd's credit ratings of A (Excellent) from A.M. Best, AA- (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's. Any downgrade in Lloyd's financial strength ratings may have an adverse effect on the Group.

The Group's business plan and underwriting capacity for the Syndicate may be affected by a decrease in the value of the Group's Funds at Lloyd's or by recommendations from the Lloyd's Franchise Board. The Group is also reliant upon the compliance of Lloyd's with US regulations, including the maintenance by Lloyd's of its trading licences and approvals in the US.

4.11 Sussex: Governance Structure

Sussex Capital is Brit's collateralised reinsurance platform based in Bermuda which was launched on 1 January 2018. Sussex Capital Limited has two segregated accounts operating as funds available for capital investment, referred to as The Diversified Fund and Specialty Insurance Fund (the Funds). Through Sussex Re, it writes direct collateralised property catastrophe reinsurance and also provides collateralised reinsurance to Brit's Property Treaty portfolio.

Sussex Capital has an independent governance structure to manage its operations. This consists of a Board and three sub-committees. The Board has overall responsibility for oversight of the business. The Valuation Committee is responsible for fund valuation, settling claims and setting reserves, the Investment Committee ensures investments are made in line with the Funds objectives, and the Management Committee oversees the day-to-day operations of the Funds.

The risks to Brit from Sussex Capital arise from two main sources: First, a direct investment risk due to the Group's investment in the Funds. Secondly, operational, reputational, and strategic risks relating to managing the Funds on behalf of external investors. The direct investment risk is managed in the same way as the Group's other investment risks, through oversight by the relevant committees. The operational, reputational, and strategic risks are managed through the governance structure in place at Sussex as described above. In particular, the Sussex Board has independent non-executive Directors with significant industry experience. The Brit Group provides support (for example, catastrophe modelling) to assist Sussex's operations and risk management.

4.12 Ki: Governance and Risk Management Framework

Ki is first fully digital and algorithmically-driven Lloyd's syndicate offering instant capacity, accessible anywhere, at any time. It has been approved by Lloyd's to start writing business from 1 January 2021, writing a mix of lines that are either already underwritten by other Brit Syndicates (S2987 and S2988) or other approved nominated lead.

Ki is managed by BSL, with its capital backing coming from a mix of Fairfax and Blackstone. In line with Brit's Risk Management Framework, risks to Ki and Syndicate 1618 are managed in the same way as Brit's other syndicates, other than where specifically noted above.

5 Segmental information

This Note breaks down the operating results summarised in the income statement into the main business areas of the Group. It also shows how our revenue is split globally. This analysis is designed to help you understand how each segment of our business has performed and how we have allocated our shareholders' capital.

As at 31 December 2020, the reportable segments identified were as follows:

- 'London Direct', which underwrites the Group's international and US business, other than treaty reinsurance. In the main, London Direct deals with wholesale buyers of insurance, rather than individuals. Risks are large and usually syndicated by several underwriters by means of the subscription market.
- 'London Reinsurance', which underwrites reinsurance business (essentially the insurance of insurance and reinsurance companies) and includes writing non-proportional cover for major events such as earthquakes or hurricanes. These insurance and reinsurance companies calculate how much risk they want to retain and then pass on their remaining exposure to reinsurers in return for a premium.
- 'Overseas Distribution' writes business generated by BGSU and Scion in the US, and BGSB (Bermuda).
- 'Discontinued' represents lines on business which have been placed into run-off.
- 'Other Underwriting', includes the Group's special purpose vehicles and Brit's share of Syndicate 2988. The share of the Group's special purpose vehicles attributable to third-party underwriting capital providers is represented by the 'gains on other financial liabilities'.
- 'Other corporate', which is made up of residual income and expenditure not allocated to other segments.

Foreign exchange differences on non-monetary items are separately disclosed. This provides a fairer representation of the claims ratios and financial performance of the strategic business units (SBUs) which would otherwise be distorted by the mismatch arising from IFRSs whereby unearned premium, reinsurer's share of unearned premium and deferred acquisition costs are treated as non-monetary items and the majority of other assets and liabilities are treated as monetary items. Non-monetary items are carried at historic exchange rates, while monetary items are translated at closing rates.

The Group investment return is managed centrally and an allocation is made to each of the strategic business units based on the average risk free interest rate for the period being applied to the opening insurance funds of each strategic business unit. The annualised average risk-free rate applied to insurance funds was 1.5% for the year ended 31 December 2020 (31 December 2019: 1.5%).

The ratios set out in the segmental analysis are calculated as follows:

- The claims ratio is calculated as claims incurred, net of reinsurance divided by earned premiums, net of reinsurance.
- The expense ratio is calculated as acquisition costs and other insurance related expenses divided by earned premiums, net of reinsurance.
- The combined ratio is the sum of the claims and expense ratios.

Information regarding the Group's reportable segments is presented below.

5 Segmental information (continued)

(a) Income statement by segment

Year ended 31 December 2020

	London Direct US$m	London Reinsurance US$m	Overseas Distribution US$m	Discontinued US$m	Other Underwriting US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	1,411.6	479.2	437.6	5.0	91.0	2,424.4	–	2,424.4	–	2,424.4
Less premiums ceded to reinsurers	(363.5)	(138.8)	(131.8)	(1.6)	(13.1)	(648.8)	–	(648.8)	–	(648.8)
Premiums written, net of reinsurance	1,048.1	340.4	305.8	3.4	77.9	1,775.6	–	1,775.6	–	1,775.6
Gross earned premiums	1,386.8	472.1	432.5	33.4	52.0	2,376.8	(4.6)	2,372.2	–	2,372.2
Reinsurers' share	(407.5)	(133.6)	(124.0)	(11.7)	13.9	(662.9)	1.4	(661.5)	–	(661.5)
Earned premiums, net of reinsurance	979.3	338.5	308.5	21.7	65.9	1,713.9	(3.2)	1,710.7	–	1,710.7
Investment return	18.5	12.2	8.5	3.2	3.9	46.3	–	46.3	10.2	56.5
Return on derivative contracts	–	–	–	–	–	–	–	–	(1.1)	(1.1)
Other income	6.9	1.4	1.8	–	19.6	29.7	–	29.7	(15.6)	14.1
Losses on other financial liabilities	–	–	–	–	(8.2)	(8.2)	–	(8.2)	2.2	(6.0)
Total revenue	1,004.7	352.1	318.8	24.9	81.2	1,781.7	(3.2)	1,778.5	(4.3)	1,774.2
Gross claims incurred	(1,045.5)	(302.6)	(331.1)	(28.4)	(36.8)	(1,744.4)		(1,744.4)	–	(1,744.4)
Reinsurers' share	372.2	37.1	73.3	11.3	11.4	505.3		505.3	–	505.3
Claims incurred, net of reinsurance	(673.3)	(265.5)	(257.8)	(17.1)	(25.4)	(1,239.1)	–	(1,239.1)	–	(1,239.1)
Acquisition costs – commission	(320.9)	(66.4)	(51.9)	(6.2)	(8.9)	(454.3)	1.0	(453.3)	–	(453.3)
Acquisition costs – other	(60.8)	(14.8)	(40.2)	(2.6)	(27.4)	(145.8)	0.4	(145.4)	–	(145.4)
Other insurance related expenses	(66.3)	(24.9)	(22.2)	–	(0.5)	(113.9)	–	(113.9)	–	(113.9)
Other expenses	–	–	–	–	–	–	–	–	(23.6)	(23.6)
Net foreign exchange losses	–	–	–	–	–	–	4.6	4.6	(12.4)	(7.8)
Total expenses excluding finance costs	(1,121.3)	(371.6)	(372.1)	(25.9)	(62.2)	(1,953.1)	6.0	(1,947.1)	(36.0)	(1,983.1)
Operating loss	(116.6)	(19.5)	(53.3)	(1.0)	19.0	(171.4)	2.8	(168.6)	(40.3)	(208.9)
Finance costs										(23.6)
Share of net profit of associates										2.0
Loss on ordinary activities before tax										(230.5)
Tax charge										(1.5)
Loss for the year										(232.0)
Claims ratio	68.8%	78.4%	83.6%			72.6%				
Expense ratio	45.7%	31.3%	37.1%			40.0%				
Combined ratio	114.5%	109.7%	120.7%			112.6%				

Year ended 31 December 2019

	London Direct US$m	London Reinsurance US$m	Overseas Distribution US$m	Discontinued US$m	Other Underwriting US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	1,361.7	427.5	462.0	11.2	31.1	2,293.5	–	2,293.5	–	2,293.5
Less premiums ceded to reinsurers	(427.9)	(98.8)	(122.2)	(5.1)	16.7	(637.3)	–	(637.3)	–	(637.3)
Premiums written, net of reinsurance	933.8	328.7	339.8	6.1	47.8	1,656.2	–	1,656.2	–	1,656.2
Gross earned premiums	1,326.4	401.2	425.0	53.4	38.7	2,244.7	5.0	2,249.7	–	2,249.7
Reinsurers' share	(403.5)	(97.6)	(106.3)	(16.5)	17.7	(606.2)	(1.6)	(607.8)	–	(607.8)
Earned premiums, net of reinsurance	922.9	303.6	318.7	36.9	56.4	1,638.5	3.4	1,641.9	–	1,641.9
Investment return	18.9	11.2	7.9	3.5	3.4	44.9	–	44.9	113.6	158.5
Return on derivative contracts	0.2	0.1	0.1	–	–	0.4	–	0.4	(18.0)	(17.6)
Gain on business combination	–	–	–	–	–	–	–	–	10.2	10.2
Other income	11.8	2.4	2.9	0.1	28.4	45.6	–	45.6	0.3	45.9
Losses on other financial liabilities	–	–	–	–	(2.6)	(2.6)	–	(2.6)	(7.9)	(10.5)
Net foreign exchange gains	–	–	–	–	–	–	2.8	2.8	14.0	16.8
Total revenue	953.8	317.3	329.6	40.5	85.6	1,726.8	6.2	1,733.0	112.2	1,845.2
Gross claims incurred	(697.0)	(247.5)	(311.0)	(9.5)	(18.4)	(1,283.4)	–	(1,283.4)	–	(1,283.4)
Reinsurers' share	263.0	56.6	74.4	(17.2)	(7.9)	368.9	–	368.9	–	368.9
Claims incurred, net of reinsurance	(434.0)	(190.9)	(236.6)	(26.7)	(26.3)	(914.5)	–	(914.5)	–	(914.5)
Acquisition costs – commission	(313.8)	(55.2)	(52.4)	(10.5)	(11.4)	(443.3)	(1.3)	(444.6)	–	(444.6)
Acquisition costs – other	(62.0)	(15.0)	(43.9)	(5.4)	(23.9)	(150.2)	(0.4)	(150.6)	–	(150.6)
Other insurance related expenses	(54.8)	(20.8)	(24.6)	(1.7)	(3.6)	(105.5)	–	(105.5)	–	(105.5)
Other expenses	–	–	–	–	–	–	–	–	(20.3)	(20.3)
Total expenses excluding finance costs	(864.6)	(281.9)	(357.5)	(44.3)	(65.2)	(1,613.5)	(1.7)	(1,615.2)	(20.3)	(1,635.5)
Operating profit	89.2	35.4	(27.9)	(3.8)	20.4	113.3	4.5	117.8	91.9	209.7
Finance costs										(23.7)
Share of net profit of associates										0.3
Profit on ordinary activities before tax										186.3
Tax charge										(6.4)
Profit for the year										179.9

Claims ratio	47.0%	62.9%	74.2%			55.7%
Expense ratio	46.7%	30.0%	37.9%			40.1%
Combined ratio	93.7%	92.9%	112.1%			95.8%

5 Segmental information (continued)

b) Depreciation, amortisation and capital expenditure by segment

	London Direct US$m	London Reinsurance US$m	Overseas Distribution US$m	Discontinued US$m	Other Underwriting US$m	Total US$m
Year ended 31 December 2020						
Depreciation and impairment of property, plant and equipment	**3.7**	**1.2**	**3.1**	**0.1**	**0.8**	**8.9**
Amortisation of intangibles	**4.2**	**1.4**	**1.8**	**0.1**	**3.2**	**10.7**
Capital expenditure	**3.9**	**1.4**	**2.3**	**0.1**	**–**	**7.7**
Year ended 31 December 2019						
Depreciation and impairment of property, plant and equipment	4.3	1.4	2.7	0.2	0.7	9.3
Amortisation of intangibles	3.5	1.1	1.3	0.1	2.7	8.7
Capital expenditure	4.1	1.4	4.3	0.2	0.1	10.1

Capital expenditure consists of additions of property, plant and equipment and intangible assets but excludes assets recognised on business combinations.

c) Geographical information

The Group's strategic business units operate mainly in five geographical areas, though the business is managed on a worldwide basis. The segmental split shown below is based on the location of the underlying risk.

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Gross premiums written		
United States	**1,335.2**	1,207.3
United Kingdom	**160.4**	141.0
Canada	**100.7**	103.8
Europe (excluding UK)	**54.9**	69.5
Other (including worldwide)	**773.2**	771.9
	2,424.4	2,293.5

The nature of the London Market business is such that the insureds and reinsureds are often operating on a multi-territory or worldwide basis and hence coverage is often provided on a worldwide basis. Premiums written on a multi-territory or worldwide basis are included in 'Other' in the table above.

6 Investment return

This Note shows the income generated through investing funds. It also shows the gains and losses generated on various types of investment assets as a result of the movement in their market values.

	Investment income US$m	Net realised gains/(losses) US$m	Net unrealised (losses)/gains US$m	Total investment return US$m
Year ended 31 December 2020				
Equity securities	**6.3**	**(7.1)**	**(41.7)**	**(42.5)**
Debt securities	**63.8**	**13.0**	**64.5**	**141.3**
Mortgages and loans	**0.2**	**–**	**–**	**0.2**
Specialised investment funds	**–**	**1.6**	**(34.4)**	**(32.8)**
Cash and cash equivalents	**2.9**	**–**	**–**	**2.9**
Total investment return before expenses	**73.2**	**7.5**	**(11.6)**	**69.1**
Investment management expenses	**(12.6)**	**–**	**–**	**(12.6)**
Total investment return	**60.6**	**7.5**	**(11.6)**	**56.5**
Year ended 31 December 2019				
Equity securities	5.7	(39.2)	129.7	96.2
Debt securities	71.8	(12.2)	22.4	82.0
Specialised investment funds	–	(0.5)	(17.3)	(17.8)
Cash and cash equivalents	9.8	–	–	9.8
Total investment return before expenses	87.3	(51.9)	134.8	170.2
Investment management expenses	(11.7)	–	–	(11.7)
Total investment return	75.6	(51.9)	134.8	158.5

7 Return on derivative contracts

This Note shows the effect on the income statement of derivative contracts held during the year, and which help manage exposure to fluctuations in interest rates and foreign exchange rates. Derivatives are shown analysed between investment and currency related derivatives, reflecting the way the business is managed.

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Investment-related non-currency options	**(13.9)**	(2.8)
Currency forwards	**12.8**	(14.8)
Return on derivative contracts	**(1.1)**	(17.6)

8 Other income (including gains/(losses) on other financial liabilities)

This Note shows the analysis of other income generated in the year, including gains/(losses) on other financial liabilities.

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Fees and commission from non-aligned syndicate	**6.9**	12.7
Change in value of ultimate parent company shares held by Brit	**(15.6)**	0.3
Net commission fee income from intermediary activities	**18.5**	28.0
Consortium income	**2.9**	3.2
Other	**1.4**	1.7
Other income	**14.1**	45.9
Change in value of other financial liabilities*	**(6.0)**	(10.5)
Total	**8.1**	35.4

*Other financial liabilities are investments by third parties in structured insurance and investment entities consolidated by the Group.

9 Net foreign exchange (losses)/gains

The Group operates in multiple countries and currencies and is exposed to gains and losses arising as a result of movement in various foreign currency exchange rates. This Note explains the foreign exchange gains or losses as a result of converting the income, expenses, assets and liabilities from foreign currencies to US dollars.

The Group recognised foreign exchange losses of US$7.8m (2019: gains of US$16.8m) in the income statement in the year. Foreign exchange gains and losses result from the translation of the statement of financial position items using closing exchange rates and translation of income statement items using the exchange rates prevailing at the dates of the relevant transactions or at the average rate for the period when this is a reasonable approximation. However, as an exception to this, IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires that net unearned premiums and deferred acquisition costs (UPR/DAC), being non-monetary items, remain at historic exchange rates. This creates a foreign exchange mismatch, the financial effects of which are shown in the table below.

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
(Losses)/gains on foreign exchange arising from:		
Translation of the statement of financial position and income statement	**(12.4)**	14.0
Maintaining UPR/DAC items in the income statement at historic rates	**4.6**	2.8
Net foreign exchange (losses)/gains	**(7.8)**	16.8

Principal exchange rates applied are set out in the table below.

		Year ended 31 December 2020 US$m		Year ended 31 December 2019 US$m
	Average	**Closing**	Average	Closing
Sterling	**0.779**	**0.732**	0.783	0.755
Canadian dollar	**1.340**	**1.274**	1.327	1.297
Euro	**0.876**	**0.817**	0.893	0.891
Australian dollar	**1.447**	**1.296**	1.438	1.423

In accordance with IAS 1 'Presentation of Financial Statements', exchange gains and losses are presented on a net basis. They are reported within income where they result in a net gain and within expenses where they result in a net loss.

10 Acquisition costs and other operating expenses

This Note shows the analysis of costs incurred in acquiring and underwriting insurance contracts and the running costs of our business during the year. We have separated out the more material costs in order to provide a more detailed insight into our cost base.

	Year ended 31 December 2020			Year ended 31 December 2019		
	Acquisition costs US$m	Other operating expenses US$m	Total US$m	Acquisition costs US$m	Other operating expenses US$m	Total US$m
Salary, pension and social security costs (Note 11)	**63.1**	**60.0**	**123.1**	73.5	56.9	130.4
Other staff related costs	**3.3**	**9.9**	**13.2**	4.6	12.3	16.9
Accommodation costs	**6.2**	**3.2**	**9.4**	6.1	2.2	8.3
Legal and professional charges	**11.5**	**13.9**	**25.4**	8.0	7.7	15.7
IT costs	**2.5**	**24.8**	**27.3**	2.2	20.0	22.2
Travel and entertaining	**1.1**	**0.7**	**1.8**	4.7	2.6	7.3
Marketing and communications	**0.2**	**1.5**	**1.7**	0.5	1.9	2.4
Amortisation and impairment of intangible assets	**0.5**	**10.2**	**10.7**	0.4	8.3	8.7
Depreciation and impairment of property, plant and equipment	**2.8**	**6.1**	**8.9**	2.4	6.9	9.3
Regulatory levies and charges	**47.6**	**0.4**	**48.0**	43.7	–	43.7
Other	**6.6**	**6.8**	**13.4**	4.5	7.0	11.5
Expenses before commissions	**145.4**	**137.5**	**282.9**	150.6	125.8	276.4
Commission costs	**453.3**	**–**	**453.3**	444.6	–	444.6
Total acquisition costs and other operating expenses	**598.7**	**137.5**	**736.2**	595.2	125.8	721.0

11 Staff costs

This Note gives a breakdown of the total cost of employing staff (including executive and non-executive Directors) and gives the average number of people employed by the Group during the year.

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Wages and salaries	**105.6**	112.0
Social security costs	**11.4**	13.3
Pension costs	**6.1**	5.1
Total staff costs	**123.1**	130.4

11 Staff costs (continued)

The average number of employees during the year, including executive and non-executive Directors, was as follows:

	Year ended 31 December 2020 Number	Year ended 31 December 2019 Number
Front office staff		
Underwriters	**213**	213
Claims staff	**65**	58
Other underwriting and direct support staff	**163**	156
Total front office staff	**441**	427
Back office staff		
Management	**118**	107
Administration	**195**	176
Total back office staff	**313**	283
Total employees	**754**	710

'Management' includes non-executive Directors and employees who have other members of staff reporting to them.

12 Finance costs

Finance costs arise from interest due on moneys borrowed by the Group and any other amounts payable in respect of those borrowings or borrowing facilities. Finance costs also includes interest payable on lease liabilities. The Group's borrowings consist of a revolving credit facility and listed unsecured subordinated debt, details of which are set out in Note 28.

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Revolving credit facility and other bank borrowings	**7.9**	7.9
Interest payable on lease liabilities	**1.6**	1.8
Subordinated debt	**14.1**	14.0
Total finance costs	**23.6**	23.7

13 Auditor's remuneration

The Group engages PricewaterhouseCoopers LLP to perform the audit of the Group and all subsidiaries except for the Ambridge companies.

The remuneration of the auditors or their associates is analysed as follows:

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Audit of the Group and Company financial statements	0.5	0.6
Audit of subsidiaries	1.3	1.2
Audit related assurance services	0.1	0.1
Total audit and audit related assurance services	1.9	1.9
Total non-audit services	–	–
Total audit and non-audit services	1.9	1.9

14 Investments in associated undertakings

This Note describes the investments made in associated undertakings and provides summarised income statements and statements of financial position of those associates.

Camargue Underwriting Managers Proprietary Limited ('Camargue')

On 30 August 2016, the Group acquired 50% of the share capital of Camargue for ZAR65.5m plus £0.3m (US$4.9m) and entered into a call and a put option to purchase the remaining 50% in 2021. The investment in Camargue is measured using the equity accounting method. The principal place of business of Camargue is South Africa. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit. The summarised statement of financial position of Camargue and reconciliation to the carrying amount is as follows:

Statement of financial position

	31 December 2020 US$m	31 December 2019 US$m
Current assets	6.7	5.6
Non-current assets	1.7	1.6
Total assets	8.4	7.2
Current liabilities	(5.7)	(4.8)
Non-current liabilities	(0.1)	(0.1)
Total liabilities	(5.8)	(4.9)
Net assets	2.6	2.3
50% not owned by Brit	(1.3)	(1.2)
Acquisition fair value, result since acquisition and other adjustments	5.0	5.0
Carrying value	6.3	6.1

Income statement

	31 December 2020 US$m	31 December 2019 US$m
Commission revenue	6.4	5.4
Operating expenses	(4.4)	(4.2)
Net profit	2.0	1.2
50% not owned by Brit	(1.0)	(0.6)
Share of net profit of associate	1.0	0.6

14 Investments in associated undertakings (continued)

Sutton Special Risk Inc. ('Sutton')

On 2 January 2019, Brit Insurance Holdings Limited, acquired 49% of the issued shares of Sutton for a total purchase consideration of CAD$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian managing general underwriter of a range of specialised insurance products, including Accident and Health. The summarised statement of financial position of Sutton and reconciliation to the carrying amount is as follows:

Statement of financial position

	31 December 2020 US$m	31 December 2019 US$m
Current assets	**16.2**	16.2
Non-current assets	**3.8**	3.0
Total assets	**20.0**	19.2
Current liabilities	**(15.4)**	(16.4)
Total liabilities	**(15.4)**	(16.4)
Net assets	**4.6**	2.8
51% not owned by Brit	**(2.3)**	(1.4)
Acquisition fair value, result since acquisition and other adjustments	**11.9**	11.9
Carrying value	**14.2**	13.3

Income statement

	31 December 2020 US$m	31 December 2019 US$m
Commission revenue	**7.8**	8.0
Operating expenses	**(5.8)**	(6.6)
Net profit	**2.0**	1.4
51% not owned by Brit	**(1.0)**	(0.7)
Share of net profit of associate	**1.0**	0.7

15 Non-controlling interests

This Note provides summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed are before inter-company eliminations.

During 2020, Ki Financial Limited was incorporated and received initial funding from investors, including Brit Limited, to support the initial underwriting activities of Ki syndicate 1618. As at 31 December 2020, the Group holds 20.0% of the share capital but a majority of the voting rights in the company.

The summarised financial information of Ki Financial Limited, before inter-company eliminations, is as follows:

Statement of financial position

	31 December 2020 US$m
Current assets	25.6
Non-current assets	130.6
Total assets	**156.2**
Current liabilities	6.0
Total liabilities	**6.0**
Net assets	**150.2**
Accumulated NCI	121.7

Comprehensive Income statement

	31 December 2020 US$m
Loss for the period	(5.2)
Other comprehensive income	–
Total comprehensive income	**(5.2)**
Loss allocated to NCI	(2.7)

Statement of Cash flows

	31 December 2020 US$m
Cash flows from operating activities	(2.0)
Cash flows from investing activities	(129.0)
Cash flows from financing activities	155.4
Net increase in cash and cash equivalents	**24.4**

16 Tax expense

Income tax is tax charged on trading activities during the year. This Note shows the breakdown of tax payable in the current period (current tax) and also tax that may become payable sometime in the future (deferred tax).

(a) Tax charged to the income statement

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Current tax:		
Current taxes on income for the year	–	2.0
Overseas tax on income for the year	(0.1)	(1.6)
	(0.1)	0.4
Double tax relief	1.1	1.2
Adjustments in respect of prior years	0.3	1.8
Total current tax	1.3	3.4
Deferred tax:		
Relating to the origination and reversal of temporary differences	(2.6)	(10.6)
Adjustments in respect of prior years	(0.2)	0.8
Total deferred tax	(2.8)	(9.8)
Total tax charged to the income statement	**(1.5)**	(6.4)

Overseas tax and double tax relief principally arise from taxes suffered as a result of the Group's operations at Lloyd's. Double tax relief is effectively limited to an amount equal to the tax due at the UK tax rate on the same source of income.

(b) Tax credited to other comprehensive income

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Deferred tax credit on actuarial losses on defined benefit pension scheme	1.8	6.4

(c) Tax reconciliation

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise based on the weighted average rate of tax as follows:

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
(Loss)/profit on ordinary activities before tax	(230.5)	186.3
Tax calculated at weighted average rate of tax on income	32.6	(3.2)
Non-deductible and non-taxable items	(0.7)	1.8
Taxes on income at rates in excess of the domestic rate and where credit is unavailable	1.2	1.2
Effect of temporary differences not recognised	(42.0)	7.2
Effect of revaluation of deferred tax following change in rate of tax	7.2	(15.8)
Other items	0.1	(0.2)
Adjustments to tax charge in respect of prior years	0.1	2.6
Total tax charged to income statement	**(1.5)**	(6.4)

The weighted average rate of tax is based on the geographic split of profit across Group entities in jurisdictions with differing tax rates. As the mix of taxable profits changes, so will the weighted average rate of tax.

(d) Effect of post balance sheet rate changes

The main rate of UK corporation tax of 19% has been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2020. This rate is expected to remain at 19% under current UK legislation.

17 Intangible assets

An intangible asset is an asset without any physical substance but which has long-term value to the business. With the exception of goodwill, syndicate participation rights at Lloyd's, trade names and the regulatory licences, which are classified as indefinite life assets, the value of these assets are reduced according to their useful life by way of amortisation. Amortisation is included as an expense in the income statement.

	Goodwill US$m	Trade names US$m	Distribution channels US$m	Syndicate Participations US$m	Regulatory licenses US$m	Employee related US$m	Software US$m	Total US$m
Cost:								
At 1 January 2019	–	–	9.8	70.8	7.5	–	**36.7**	**124.8**
Additions	–	–	–	–	–	–	**5.2**	**5.2**
Additions through acquisitions	45.9	0.5	42.6	–	–	1.2	**0.9**	**91.1**
Foreign exchange effect	–	–	–	–	–	–	**1.4**	**1.4**
At 31 December 2019	45.9	0.5	52.4	70.8	7.5	1.2	**44.2**	**222.5**
At 1 January 2020	**45.9**	**0.5**	**52.4**	**70.8**	**7.5**	**1.2**	**44.2**	**222.5**
Additions	**–**	**–**	**–**	**–**	**–**	**–**	**6.5**	**6.5**
Assets reclassified as held-for-sale	**–**	**–**	**–**	**–**	**(7.5)**	**–**	**–**	**(7.5)**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(7.8)**	**(7.8)**
Foreign exchange effect	**–**	**–**	**–**	**–**	**–**	**–**	**1.4**	**1.4**
At 31 December 2020	**45.9**	**0.5**	**52.4**	**70.8**	**–**	**1.2**	**44.3**	**215.1**
Amortisation:								
At 1 January 2019	–	–	5.1	–	–	–	15.3	20.4
Charge for the year	–	–	2.7	–	–	0.3	5.7	8.7
Foreign exchange effect	–	–	–	–	–	–	0.8	0.8
At 31 December 2019	–	–	7.8	–	–	0.3	21.8	29.9
At 1 January 2020	**–**	**–**	**7.8**	**–**	**–**	**0.3**	**21.8**	**29.9**
Charge for the year	**–**	**–**	**3.5**	**–**	**–**	**0.4**	**6.8**	**10.7**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(7.8)**	**(7.8)**
Foreign exchange effect	**–**	**–**	**–**	**–**	**–**		**1.1**	**1.1**
At 31 December 2020	**–**	**–**	**11.3**	**–**	**–**	**0.7**	**21.9**	**33.9**
Carrying amount:								
At 31 December 2019	45.9	0.5	44.6	70.8	7.5	0.9	22.4	192.6
At 31 December 2020	**45.9**	**0.5**	**41.1**	**70.8**	**–**	**0.5**	**22.4**	**181.2**

Additional information

The gross cost of software fully amortised but still in use is US$13.6m (2019: US$8.1m). All software additions in 2020 and 2019 were internally developed. The software amortisation charge for the year of US$6.8m (2019: US$5.7m) is included in the 'other operating expenses' line in the income statement. There were no impairments to software in 2020 (2019: nil). Assets not yet in use with a total cost of US$1.1m (2019: US$0.6m) are included in software. Further information is given in Note 5(b).

17 Intangible assets (continued)

Impairment testing

Goodwill

Goodwill is reviewed annually for impairment and has been allocated to the Ambridge cash-generating unit (CGU):

	31 December 2020 US$m	31 December 2019 US$m
Ambridge Group	**45.9**	45.9

The goodwill of the Group relates to the acquisition of Ambridge in 2019 and the recoverable amounts have been determined using a value in use calculation.

The value in use calculation uses cash flow projections based on business plans approved by senior management covering a three-year period and subsequent cash flows which assume a nil growth rate. These cash flows have been discounted using a risk adjusted discount rate of 9.9% (2019: 9.2%). In the goodwill impairment review, the recoverable amount significantly exceeds the carrying value of the CGU including its associated goodwill and it is considered that a reasonably possible change in key assumptions will not cause the carrying value of the CGU to exceed its recoverable amount.

The key assumptions used for the impairment calculations were that cash flows and profit levels will mainly depend on the level of commissions earned by Ambridge. The business plan reflects senior management's best estimates based on historical experience, growth rates for the respective insurance industry sector, the insurance pricing cycle and expected results from ongoing and future strategic business unit product and distribution strategies.

Syndicate participations

Syndicate participations are indefinite life intangible assets and are therefore reviewed annually for impairment. They have been allocated to cash-generating units (CGUs) as follows:

	31 December 2020 US$m	31 December 2019 US$m
Global Specialty Direct	**52.7**	52.7
Global Specialty Reinsurance	**18.1**	18.1
Total	**70.8**	70.8

These CGUs are based upon operating segments which earn revenues and incur expenses and whose results are regularly reviewed by management.

The recoverable amounts of the CGUs have been determined using a value in use calculation.

Each value in use calculation uses pre-tax cash flow projections based on business plans approved by senior management covering a three-year period and subsequent cash flows which assume a nil growth rate. These cash flows have been discounted using a risk adjusted pre-tax discount rate of 9.9% (2019: 9.2%). In each syndicate participation impairment review, the recoverable amount significantly exceeds the carrying value of the CGU including its associated syndicate participations and it is considered that a reasonably possible change in key assumptions will not cause the carrying value of the CGU to exceed its recoverable amount.

The key assumptions used for the impairment calculations were that cash flows and profit levels will mainly depend on the level of premiums written by each strategic business unit, the rates at which these premiums are written and the claims activity on both prior and future underwriting years. The business plans reflect senior management's best estimates based on historical experience, growth rates for the respective insurance industry sector, the insurance pricing cycle and expected results from ongoing and future strategic business unit product and distribution strategies.

Commissions and other insurance related expenses are assumed to remain materially in line with current amounts relative to premium levels.

Trade names

Trade names are indefinite life intangible assets and are therefore reviewed annually for impairment. They have been allocated to cash-generating units (CGUs) as follows:

	31 December 2020 US$m	31 December 2019 US$m
Ambridge Group	**0.5**	0.5

The trade names were acquired in 2019 as part of the Ambridge acquisition and the recoverable amounts have been determined using a relief from royalty approach to estimate the fair value.

Each calculation of the current fair value of the trade names uses revenue projections based on business plans approved by senior management. A royalty rate is applied as a percentage of the revenue stream and these cash flows have been discounted using a risk adjusted discount rate of c.13%.

The key assumptions used for the impairment calculations are the level of projected revenue cash flows and the estimated royalty rate. The revenue estimates reflect senior management's best estimates based on historical experience, growth rates for the respective industry sector and expected results from the product and distribution strategies of the CGUs. The royalty rate used of 0.25% was determined post-acquisition following consideration of comparable market royalty rates.

Regulatory licenses

On 30 April 2018, as part of Brit's acquisition of Commonwealth Insurance Company of America from TIG Insurance Company, an intangible asset was recognised in respect of the US$7.5m paid for its operating licences in 48 US states.

The carrying amount of the Commonwealth business is to be recovered principally through a sale transaction so the assets, including the regulatory licenses, and liabilities of this disposal group have been presented separately within the "assets classified as held for sale" and "liabilities directly associated with assets classified held for sale" categories on the consolidated statement of financial position.

18 Property, plant and equipment

This Note gives a breakdown of the type of assets in use such as computer equipment, office fixtures and fittings and furniture. The value of these assets are reduced according to their useful life by way of depreciation. Depreciation is included as an expense in the income statement. An annual assessment of the carrying value of these assets is carried out and, if necessary, an impairment charge to the income statement is made.

	Office refurbishment US$m	Computers and office machinery, furniture and equipment US$m	Right of use assets US$m	Total US$m
Cost:				
At 1 January 2019	20.4	11.7	50.4	82.5
Additions	3.1	0.9	0.9	4.9
Additions through acquisitions	0.2	0.3	1.5	2.0
Disposals	–	–	(0.1)	(0.1)
Foreign exchange effect	0.8	0.4	2.0	3.2
At 31 December 2019	24.5	13.3	54.7	92.5
At 1 January 2020	**24.5**	**13.3**	**54.7**	**92.5**
Additions	**0.3**	**0.9**	**–**	**1.2**
Disposals	**–**	**(1.1)**	**(1.5)**	**(2.6)**
Foreign exchange effect	**0.7**	**0.3**	**1.5**	**2.5**
At 31 December 2020	**25.5**	**13.4**	**54.7**	**93.6**
Depreciation:				
At 1 January 2019	6.0	8.7	–	14.7
Charge for the year	1.7	1.7	5.7	9.1
Impairments	–	–	0.2	0.2
Disposals	–	–	(0.1)	(0.1)
Foreign exchange effect	0.3	0.3	0.1	0.7
At 31 December 2019	**8.0**	**10.7**	**5.9**	**24.6**
At 1 January 2020	**8.0**	**10.7**	**5.9**	**24.6**
Charge for the year	**2.3**	**0.9**	**5.7**	**8.9**
Disposals	**–**	**(1.1)**	**(0.3)**	**(1.4)**
Foreign exchange effect	**0.1**	**0.4**	**0.5**	**1.0**
At 31 December 2020	**10.4**	**10.9**	**11.8**	**33.1**
Carrying amount:				
At 31 December 2019	16.5	2.6	48.8	67.9
At 31 December 2020	**15.1**	**2.5**	**42.9**	**60.5**

The gross cost of property, plant and equipment fully depreciated but still in use is US$9.4m (2019: US$8.7m). The depreciation charge for the year of US$8.9m (2019: US$9.1m) is included in the 'other operating expenses' line in the income statement. No impairment charge was recognised in 2020 (2019: US$0.2m). A dilapidations provision of US$2.5m (2019: US$3.5m) has been set up in respect of the refurbishment of rented property.

Further information on depreciation and capital expenditure by segment is given in Note 5(b).

19 Deferred acquisition costs

Acquisition costs are costs incurred in underwriting insurance risks and include commissions paid to third parties and some internally generated costs such as underwriter salaries. These costs are deferred and are charged to the income statement over the duration of the contract. The movement in these deferred costs and releases to the income statement is shown in this Note.

	2020 US$m	2019 US$m
At 1 January	**243.6**	244.1
Costs deferred during the year	**602.9**	594.7
Amortisation charge for the year	**(599.2)**	(595.2)
At 31 December	**247.3**	243.6

20 Deferred taxation

This Note describes the tax that may have to be paid in the future. Deferred tax arises from differences in the way that tax is calculated for accounting purposes and tax purposes.

The deferred tax asset is attributable to temporary differences arising on the following:

	Intangible assets US$m	Underwriting US$m	Other US$m	Total US$m
At 1 January 2019	1.5	92.8	3.9	98.2
Movements in the year:				
(Charged)/credited to income statement	(0.6)	0.2	1.0	0.6
Foreign exchange effect	–	–	(0.1)	(0.1)
At 31 December 2019	0.9	93.0	4.8	98.7
Set-off of deferred tax liabilities pursuant to set-off provisions				(57.6)
Net deferred tax asset at 31 December 2019				41.1
At 1 January 2020	**0.9**	**93.0**	**4.8**	**98.7**
Movements in the year:				
(Charged)/credited to income statement	**(0.3)**	**(32.7)**	**28.8**	**(4.2)**
Foreign exchange effect	**–**	**–**	**0.4**	**0.4**
At 31 December 2020	**0.6**	**60.3**	**34.0**	**94.9**
Set-off of deferred tax liabilities pursuant to set-off provisions				**(45.1)**
Net deferred tax asset at 31 December 2020				**49.8**

Deferred tax assets, all of which arise in the United Kingdom, are considered recoverable where it is expected that there will be future taxable income based on the approved business plans and budgets of the Group. The net deferred tax asset recorded in the year arose from significant catastrophe-related activity, which is not expected to recur. The losses can be carried forward indefinitely and have no expiry date. Please see Note 3.9 for further detail on the estimation of deferred tax assets.

Deferred tax assets have not been recognised in respect of certain losses carried forward of US$16.8m (2019: US$18.8m) and in respect of undeclared year of account losses of US$231.1m (2019: US$14.1m) as it is not considered probable that they can be utilised in the foreseeable future.

Deferred tax has not been provided in respect of the profits of subsidiaries in the Group as tax exemptions, for example the participation exemption, are expected to apply.

20 Deferred taxation (continued)

Deferred tax assets arising on decelerated capital allowances of US$0.3m (2019: US$0.6m) have not been provided for due to uncertainty over the timing of their utilisation.

The deferred tax liability is attributable to temporary differences arising on the following:

	Pensions US$m	Intangible assets US$m	Underwriting US$m	Other US$m	Total US$m
At 1 January 2019	(9.1)	(13.8)	(17.5)	(1.7)	(42.1)
Movements in the year:					
(Charged)/credited to income statement	(14.9)	0.3	4.2	–	(10.4)
Acquisition of Ambridge	–	(10.5)	–	–	(10.5)
Tax relating to components of other comprehensive income (Note 16(b))	6.4	–	–	–	6.4
Foreign exchange effect	(0.6)	–	0.4	(0.8)	(1.0)
At 31 December 2019	(18.2)	(24.0)	(12.9)	(2.5)	(57.6)
Set-off of deferred tax assets pursuant to set-off provisions					57.6
Net deferred tax liability at 31 December 2019					–
At 1 January 2020	**(18.2)**	**(24.0)**	**(12.9)**	**(2.5)**	**(57.6)**
Movements in the year:					
(Charged)/credited to income statement	**(0.4)**	**(2.0)**	**3.5**	**0.3**	**1.4**
Tax relating to components of other comprehensive income (Note 16(b))	**1.8**	**–**	**–**	**–**	**1.8**
Foreign exchange effect	**(0.3)**	**–**	**0.5**	**(0.8)**	**(0.6)**
At 31 December 2020	**(17.1)**	**(26.0)**	**(8.9)**	**(3.0)**	**(55.0)**
Set-off of deferred tax assets pursuant to set-off provisions					**45.1**
Net deferred tax liability at 31 December 2020					**(9.9)**

21 Insurance and reinsurance contracts

This Note deals with balances carried in respect of insurance contracts (liabilities) and reinsurance contracts (assets). It examines the statement of financial position, splitting both insurance and reinsurance balances into their component parts, and explains the assumptions applied in arriving at these figures. The Note also shows how claims have developed over a period (before and after the effects of reinsurance) of time by setting out the cumulative development at the end of each calendar year in respect of claims arising from business written in a particular underwriting year. It ends by analysing the movements in insurance and reinsurance contracts during the year.

(a) Balances on insurance and reinsurance contracts

	31 December 2020 US$m	31 December 2019 US$m
Gross		
Claims reported and loss adjustment expenses	**1,783.3**	1,705.1
Unexpired risk reserve	**12.4**	–
Claims incurred but not reported	**2,997.0**	2,591.6
	4,792.7	4,296.7
Unearned premiums	**1,020.3**	969.4
Total gross liabilities	**5,813.0**	5,266.1
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	**578.2**	550.2
Claims incurred but not reported	**914.8**	795.1
	1,493.0	1,345.3
Unearned premiums	**271.1**	282.8
Total reinsurers' share of liabilities	**1,764.1**	1,628.1
Net		
Claims reported and loss adjustment expenses	**1,205.1**	1,154.9
Unexpired risk reserve	**12.4**	–
Claims incurred but not reported	**2,082.2**	1,796.5
	3,299.7	2,951.4
Unearned premiums	**749.2**	686.6
Total net insurance liabilities	**4,048.9**	3,638.0

Insurance 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 liabilities are complex and subject to a number of variables that complicate quantitative analysis.

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. It is typical to consider the attritional claims separately from the large claims, separately from the catastrophe losses. 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.

21 Insurance and reinsurance contracts (continued)

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 is not available for the projection (recent underwriting years 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 combination of techniques have been selected for the individual underwriting year or groups of underwriting years within the same class of business.

In addition to the above statistical techniques, alternative approaches are often considered 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. For example, losses from a catastrophe are typically formed from reviewing potential exposure on a policy by policy basis and taking account of market intelligence to determine Brit's share of the loss. The estimate of large claims ultimate will typically be formed from estimating the number of unreported large claims, using the standard statistical techniques described above, and multiplying this with the expected severity of such losses.

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 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. Where outward reinsurance is impacted by seasonal claims variability, e.g. catastrophe covers, the earning of the premium is adjusted to reflect the seasonality of the claims.

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

Claims development tables
The tables below show the development of claims over a period of time on a gross and net of reinsurance basis.

The claims development tables have been presented on an underwriting year basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive underwriting year at the end of each year, together with cumulative paid claims at the end of the current year.

The claims have been adjusted to make them comparable on a year by year basis.

They have been grossed up to include 100% of the managed syndicate claims rather than the claims that reflects the Group percentage ownership of each syndicate's underwriting capacity during the respective underwriting years. In addition, claims in currencies other than US dollars have been retranslated at 31 December 2020 exchange rates.

Ultimate gross claims

Underwriting year	2011 and prior years	2012	2013	2014	2015	2016	2017	2018	2019	2020	Intra Group and other underwriting adjustments	Total
Claims ratio:												
At end of underwriting year	80.9%	76.1%	70.0%	70.2%	70.6%	76.6%	101.2%	89.3%	75.7%	80.4%		
One year later	78.4%	71.6%	70.1%	73.6%	71.4%	85.5%	108.8%	96.4%	84.6%			
Two years later	78.6%	72.4%	70.2%	73.3%	73.5%	89.3%	108.8%	101.6%				
Three years later	78.3%	70.5%	69.9%	74.7%	72.5%	88.1%	110.8%					
Four years later	78.9%	73.2%	71.3%	74.3%	70.5%	89.4%						
Five years later	77.4%	74.1%	70.7%	73.2%	70.5%							
Six years later	76.5%	73.5%	69.7%	72.8%								
Seven years later	76.4%	72.4%	68.2%									
Eight years later	76.6%	71.5%										
Nine years later	76.0%											
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Total ultimate gross claims at 31 December 2020	**10,200.2**	**954.3**	**969.4**	**1,127.4**	**1,035.6**	**1,372.1**	**1,751.0**	**1,671.9**	**1,465.7**	**1,438.3**	**113.8**	**22,099.7**
Less accumulated gross paid claims	(9,857.7)	(848.9)	(835.8)	(928.9)	(764.6)	(959.8)	(1,138.1)	(848.2)	(338.9)	(104.4)	(12.7)	(16,638.0)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	–	–	–	(59.5)	(634.5)	(41.4)	(735.4)
Claims handling provision and other corporate adjustments	4.8	1.5	2.0	3.0	4.1	5.9	8.1	10.8	13.1	7.9	5.2	66.4
Total outstanding gross claims at 31 December 2020	**347.3**	**106.9**	**135.6**	**201.5**	**275.1**	**418.2**	**621.0**	**834.5**	**1,080.4**	**707.3**	**64.9**	**4,792.7**

21 Insurance and reinsurance contracts (continued)

Ultimate net claims

Underwriting year	2011 and prior years	2012	2013	2014	2015	2016	2017	2018	2019	2020	Intra Group and other underwriting adjustments	Total
Claims ratio:												
At end of underwriting year	86.7%	82.4%	75.4%	76.1%	77.6%	83.1%	100.0%	95.7%	82.2%	89.5%		
One year later	84.0%	78.1%	76.8%	79.2%	80.4%	90.2%	100.7%	102.4%	94.5%			
Two years later	83.2%	77.8%	76.4%	78.3%	81.1%	91.6%	100.7%	106.8%				
Three years later	81.3%	75.6%	76.4%	79.1%	78.9%	91.3%	103.7%					
Four years later	81.4%	76.6%	77.1%	77.8%	76.3%	92.0%						
Five years later	79.9%	76.7%	74.9%	77.4%	76.4%							
Six years later	78.7%	75.5%	73.6%	77.2%								
Seven years later	78.2%	74.4%	71.9%									
Eight years later	78.1%	73.2%										
Nine years later	77.8%											
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Total ultimate net claims at 31 December 2020	**7,555.6**	**739.0**	**740.5**	**864.6**	**811.2**	**944.6**	**1,089.6**	**1,158.0**	**1,024.9**	**1,069.3**	**112.3**	**16,109.6**
Less accumulated gross paid claims	(7,362.8)	(673.2)	(657.6)	(725.8)	(614.5)	(688.7)	(703.8)	(588.7)	(270.6)	(88.7)	(14.8)	(12,389.2)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	–	–	–	(45.0)	(466.4)	(39.6)	(551.0)
Claims handling provision, bad debt provision and other corporate adjustments	4.2	1.5	2.1	3.0	4.1	6.0	8.2	11.0	13.9	8.0	68.3	130.3
Total outstanding net claims at 31 December 2020	**197.0**	**67.3**	**85.0**	**141.8**	**200.8**	**261.9**	**394.0**	**580.3**	**723.2**	**522.2**	**126.2**	**3,299.7**

The percentages in the gross and net triangles are shown on an ultimate loss basis inclusive of catastrophe losses by year of account.

The 2010, 2016, 2017 and 2018 years of account include the impact of natural catastrophes which occurred in the following calendar year and which attached back to policies incepting in those respective years of account. The 2017 and prior years of account will also be impacted by the loss portfolio reinsurance contract entered into in 2018 with RiverStone Managing Agency Limited (for and on behalf of Lloyd's syndicate 3500).

During 2020, the net aggregate reserve releases from prior years amounted to US$61.5m, which included US$16.5m release in 2019 coupled with US$36.3m in 2018 and prior from 2987 and US$10.7m from other group entities. By comparison in 2019, the net aggregate reserve releases from prior years amounted to US$47.9m, which included US$31.3m strengthening in 2018 partially offset by a release US$70.4m in 2018 and prior from 2987 and US$7.4m from other group entities.

Reserves in London Direct experienced releases of US$66.3m (2019: US$68.8m), London RI experienced releases of US$24.3m (2019: US$4.0m), Overseas Distribution experienced a strengthening of US$36.0m (2019: US$23.5m), Discontinued experienced a strengthening of US$1.1m (2019: US$6.5m) and Other experienced releases of US$9.9m (2019: US$3.8m).

(b) Movements in insurance and reinsurance contracts

(i) Claims and loss adjustment expenses

	31 December 2020 Gross US$m	Reinsurance US$m	Net US$m	31 December 2019 Gross US$m	Reinsurance US$m	Net US$m
As at 1 January	**4,296.7**	**(1,345.3)**	**2,951.4**	4,348.5	(1,446.5)	2,902.0
Cash paid for claims settled in the year	**(1,326.8)**	**391.4**	**(935.4)**	(1,366.6)	509.1	(857.5)
Increase in liabilities	**1,744.4**	**(505.3)**	**1,239.1**	1,283.4	(368.9)	914.5
Net foreign exchange differences	**78.4**	**(33.8)**	**44.6**	31.4	(39.0)	(7.6)
As at 31 December	**4,792.7**	**(1,493.0)**	**3,299.7**	4,296.7	(1,345.3)	2,951.4

(ii) Unearned premiums

	31 December 2020 Gross US$m	Reinsurance US$m	Net US$m	31 December 2019 Gross US$m	Reinsurance US$m	Net US$m
As at 1 January	**969.4**	**(282.8)**	**686.6**	925.6	(253.3)	672.3
Premiums written in the year	**2,424.4**	**(648.8)**	**1,775.6**	2,293.5	(637.3)	1,656.2
Premiums earned during the year	**(2,372.2)**	**661.5**	**(1,710.7)**	(2,249.7)	607.8	(1,641.9)
Net foreign exchange differences	**(1.3)**	**(1.0)**	**(2.3)**	–	–	–
As at 31 December	**1,020.3**	**(271.1)**	**749.2**	969.4	(282.8)	686.6

(c) Lloyd's Part VII transfer

On 25 November 2020 the High Court sanctioned the transfer to Lloyd's Insurance Company S.A. (LIC) of syndicates' European liabilities in accordance with Part VII of the Financial Services and Markets Act 2000. The scheme took effect on 30 December 2020, whereupon all relevant policies (and related liabilities) underwritten by the Group's syndicates for years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance) were transferred to LIC. On the same date, a 100% Quota Share Reinsurance Agreement was entered into whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the syndicates that wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

The combined effect of the two transactions had no economic impact for the Group, and accordingly there is no impact on the consolidated income statement or consolidated statement of financial position. Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Reinsurance Accepted class of business, reflecting the new contractual arrangement with LIC.

Subsequent to the year-end, on 4 January 2021, under the 100% Quota Share Reinsurance Agreement between the Syndicate and LIC, the Group was required to set up advanced funds in segregated Part VII settlement accounts managed by the Managing Agent on behalf of LIC from which claims with respect to transferred liabilities will be settled. As this transaction took place after the end of the reporting period, there is no impact on the Group's consolidated statement of financial position or consolidated income statement as at 31 December 2020.

22 Employee benefits

This Note explains the pension schemes operated by the Group for its employees. For the Group's defined benefit scheme (in which no further benefits are being accrued), it sets out the amount carried on the Group statement of financial position, gains and losses incurred during the year, amounts paid into the scheme, together with further information about the scheme. For the Group's defined contribution schemes, it sets out the costs incurred during the year.

(a) Brit Group Services Limited – Defined Benefit Pension Scheme

Through Brit Group Services Limited, the Group operates a funded defined benefit pension scheme providing pensions benefits to its members. The scheme closed to new entrants on 4 October 2001 and closed to future accrual of benefits on 31 December 2011. Following closure to future accrual, benefits now increase broadly in line with inflation. The weighted average duration to payment of the scheme's expected cash flows is 17 years (2019: 16 years).

The scheme is approved by HMRC for tax purposes. The scheme is operated from a trust, which has assets which are held separately from the Group. The trust is managed by an independent Trustee. The Trustee is responsible for payment of the benefits and management of the scheme's assets. The scheme is subject to UK regulations overseen by the Pensions Regulator, which require the Group and Trustee to agree a funding strategy and contribution schedule for the scheme every three years. The most recent triennial review of the scheme was undertaken as at 31 July 2018 and identified a funding surplus of £9.5m.

Following the 2018 valuation, the Group agreed to continue to pay contributions of £2.0m a year until 31 July 2024. These contributions are now paid into a designated Brit Group Services Limited bank account over which the scheme has a charge. These contributions are payable by Brit Group Services Limited and backed-up by cross-company guarantees from Brit Insurance Holdings Limited.

If there is a shortfall against the funding target, then the Company and Trustee will agree on deficit contributions to meet this deficit over a period. There is a risk to the Company that adverse experience could lead to a requirement for the Company to make additional contributions in excess of those above to recover any deficit that arises.

Net amount recognised in the statement of financial position for the scheme:

	31 December 2020 US$m	31 December 2019 US$m
Present value of defined benefit obligation	**(222.2)**	(193.3)
Fair value of scheme assets	**271.0**	245.2
Net pension asset	**48.8**	51.9

Changes in the net pension asset recognised in the statement of financial position:

	31 December 2020 US$m	31 December 2019 US$m
Opening statement of financial position	**51.9**	53.1
Credit to income statement	**1.0**	1.5
Foreign exchange effect	**1.4**	2.0
Amount recognised outside income statement	**(5.5)**	(4.7)
Closing statement of financial position	**48.8**	51.9

A net pension asset is recognised on the statement of financial position as there is an unconditional right of the Group to be refunded the surplus in the scheme. The measurement of the net pension asset is impacted by a number of factors, including the actuarial assumptions used, the effects of changes in foreign exchange rates, and the contributions paid to the scheme by the Group. The Group expects this asset to be available as a refund to the sponsoring employer. Under UK legislation, surplus payments made from a UK pension scheme to the sponsoring employer are received net of an income tax deduction of 35%.

Net credit recognised in the income statement comprised:

	31 December 2020 US$m	31 December 2019 US$m
Net interest on net defined benefit asset	**1.0**	1.5

This credit has been recognised in the 'other operating expenses' line in the income statement. Contributions to the Group's defined contribution pension arrangements are in addition to those set out in this note and are charged directly to the income statement.

The allocation of the scheme's assets was as follows:

	31 December 2020 US$m	31 December 2019 US$m
Equities	**11.2**	12.6
Index-linked UK government bonds	–	154.0
Liability Driven Investment funds	**175.6**	–
Other debt securities	**72.0**	66.9
Cash and net current assets	**7.7**	7.4
Gold and gold mining equities	**2.1**	2.1
Other scheme assets	**2.4**	2.2
Fair value of scheme assets	**271.0**	245.2

All scheme assets have quoted prices in active markets. The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group.

Investment strategy

The Trustee determines the scheme's investment strategy after taking appropriate advice from their investment consultants. The management of the assets is delegated to Ruffer LLP and Insight Investments. The Trustee's investment objectives are to ensure that the scheme has adequate resources to meet the members' entitlements under the Trust Deed and Rules as they fall due, and thereafter to minimise long-term costs of the Scheme by maximising the return on the assets. Investment risk is managed by investing in low risk assets which are expected to move in a similar way to the benefits. The assets include LDI which aims to match a significant part of the scheme's inflation-linked benefits and therefore help to reduce the Group's exposure to interest and inflation risks.

Movements in the present value of the defined benefit obligation were as follows:

	31 December 2020 US$m	31 December 2019 US$m
Opening defined benefit obligation	**193.3**	174.5
Interest on defined benefit obligation	**3.9**	4.8
Remeasurements due to:		
Changes in financial assumptions	**27.7**	19.2
Experience on benefit obligations	**(2.2)**	0.5
Foreign exchange effect	**7.6**	7.5
Benefits paid	**(8.1)**	(13.2)
Closing defined benefit obligation	**222.2**	193.3

22 Employee benefits (continued)

Movements in the fair value of the scheme assets were as follows:

	31 December 2020 US$m	31 December 2019 US$m
Opening fair value of scheme assets	**245.2**	227.6
Interest income	**4.9**	6.4
Actual return excluding interest income	**20.1**	15.0
Foreign exchange effect	**8.9**	9.4
Benefits paid	**(8.1)**	(13.2)
Closing fair value of scheme assets	**271.0**	245.2

The principal actuarial assumptions at the year-end were:

	31 December 2020 US$m	31 December 2019 US$m
Discount rate	**1.29%**	2.11%
Retail Prices Index (RPI) inflation	**3.05%**	3.10%
Consumer Prices Index (CPI) inflation	**2.20%**	2.30%
Pension increases in payment	**2.98%**	2.98%
Mortality assumptions:		
Life expectancy of male aged 60 at statement of financial position date	**27.8 years**	27.8 years
Life expectancy of female aged 60 at statement of financial position date	**30.0 years**	29.9 years
Life expectancy of male retiring in 20 years' time aged 60	**29.4 years**	29.3 years
Life expectancy of female retiring in 20 years' time aged 60	**31.5 years**	31.4 years

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

Sensitivity analysis:

Assumption	Change in assumption	Change in defined benefit obligation at end of the year
Discount rate	Decrease by 0.5%	Increase by US$19.8m
Future RPI inflation increases	Increase by 0.5%	Increase by US$16m
Future CPI inflation increases	Increase by 0.5%	Increase by US$2.9m
Assumed life expectancy at age 60	Increase by 1 year	Increase by US$10.5m

The calculations in this section have been carried out using the same method and data as the Group's pensions and accounting figures with each assumption adjusted as shown above. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result.

Risks:

The Group is exposed to a number of risks in relation to its defined benefit scheme, the most significant of which are detailed below:

Risk	
Investment strategy	Changes in asset values are not matched by changes in the scheme's defined benefit obligations. For example, if gilt yields rise with no changes in corporate bond yields, the net pension asset would reduce.
Investment returns	Future investment returns are lower than anticipated and so additional contributions are required from the Group to pay all the benefits promised.
Improvements in life expectancy	Scheme members live longer and so benefits are payable for longer than anticipated.
Inflation	Actual inflation is higher and so benefit payments are higher than anticipated.
Regulatory	In future the scheme may have backdated claims or liabilities arising from future legislation, emerging practice or court judgements.

(b) Brit Group Services Limited – Defined Contribution Personal Pension Plan

Brit Group Services Limited operates a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Group Services Limited to the fund and amounted to US$6.1m (2019: US$5.5m).

At 31 December 2020 no contributions were payable to the fund (2019: nil).

(c) Brit Insurance Services USA Inc. – 401(k) Safe Harbor Plan

Brit Insurance Services USA Inc. operates a '401(k) Safe Harbor Plan'. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Insurance Services USA Inc. to the fund and amounted to US$0.9m (2019: US$0.9m).

At 31 December 2020 no contributions were payable to the fund (2019: nil).

(d) Brit Insurance Services USA Inc. – Nonqualified deferred compensation plan

Brit Insurance Services USA Inc. operates a '409(a) Nonqualified deferred compensation plan'. The assets of the scheme are not held separately from those of the Group.

No pension payments were made by Brit Insurance Services USA Inc. to the fund in 2020 (2019: nil).

(e) BGS Services (Bermuda) Limited – Registered plan

BGS Services (Bermuda) Limited operates a registered plan for Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by BGS Services (Bermuda) Limited to the fund and amounted to US$51k (2019: US$28k).

At 31 December 2020 no contributions were payable to the fund (2019: nil).

(f) BGS Services (Bermuda) Limited – Unregistered plan

BGS Services (Bermuda) Limited operates an unregistered plan for non-Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by BGS Services (Bermuda) Limited to the fund and amounted to US$37k (2019: US$37k).

At 31 December 2020 no contributions were payable to the fund (2019: nil).

22 Employee benefits (continued)

(g) Sussex Capital Management Limited – Unregistered plan
Sussex Capital Management Limited operates an unregistered plan for non-Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Sussex Capital Management Limited to the fund and amounted to US$33k (2019: US$56k).

At 31 December 2020 no contributions were payable to the fund (2019: nil).

(h) Ambridge Partners LLC – 401(k) Safe Harbor Plan, Profit sharing plan and trust
Ambridge Partners LLC. operates a '401(k) Safe Harbor Plan'. The assets of the scheme are held separately from those of the Group in an independently administered fund. Employees may elect to contribute a percentage of their compensation. Ambridge Partners LLC does not match employee contributions.

(i) Ambridge Europe Limited – Defined Contribution Personal Pension Plan
Ambridge Europe Limited operates a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Ambridge Europe Limited to the fund and amounted to US$80k (2019: US$65k).

At 31 December 2020, contributions payable to the fund amounted to US$17k (2019: nil).

(j) Brit Reinsurance (Bermuda) Limited – Registered plan
Brit Reinsurance (Bermuda) Limited operates an unregistered plan for Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Reinsurance (Bermuda) Limited to the fund and amounted to US$18k (2019: US$30k).

At 31 December 2020 no contributions were payable to the fund (2019: nil).

23 Financial investments

This Note summarises the total value of the financial assets of the Group and shows how much has been invested in each class of asset. It also explains how each asset is categorised under three different levels of hierarchy, the methods used to value assets within each level and assets transferred between levels.

	31 December 2020 US$m	31 December 2019 US$m
Equity securities	**376.7**	403.9
Debt securities	**3,392.5**	2,951.1
Mortgages and Loans	**23.0**	–
Specialised investment funds	**264.4**	285.6
Total	**4,056.6**	3,640.6

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

Basis for determining the fair value hierarchy of financial instruments

The Group has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those 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 Group 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. Fair values for level two and level three assets include:

- Values provided at the request of the Group 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.

23 Financial investments (continued)

Valuation techniques

Level one
Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume). The fair values of securities sold short and the majority of the company's equities are based on published quotes in active markets. These also include government bonds and treasury bills issued in the US and in the UK.

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.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US corporate debt securities and 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 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.

Level two common stocks are priced using a combination of independent pricing service providers and internal valuation models that rely on directly or indirectly observable inputs.

Level three
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' notice to liquidate.

Level three debt instruments include corporate loans with unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date.

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.

Disclosures of fair values in accordance with the fair value hierarchy

31 December 2020	Level one US$m	Level two US$m	Level three US$m	Total US$m
Equity securities	**247.7**	**–**	**129.0**	**376.7**
Debt securities	**1,739.3**	**1,637.8**	**15.4**	**3,392.5**
Mortgages and loans	**–**	**–**	**23.0**	**23.0**
Specialised investment funds	**–**	**249.2**	**15.2**	**264.4**
	1,987.0	**1,887.0**	**182.6**	**4,056.6**
31 December 2019				
Equity securities	220.7	–	183.2	403.9
Debt securities	1,443.2	1,492.7	15.2	2,951.1
Specialised investment funds	–	268.8	16.8	285.6
	1,663.9	1,761.5	215.2	3,640.6

All unrealised losses of US$11.6m (2019: gains of US$134.8m) and realised gains of US$7.5m (2019: losses of US$51.9m) on financial investments held during the year, are presented in investment return in the consolidated income statement.

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 Group'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 (2019: US$nil) from level one to level three during 2020.

Transfers from level two to level one

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

Transfers from level three to level two

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

Reconciliation of movements in level three financial investments measured at fair value

	Equity securities US$m	Debt securities US$m	Mortgages and loans US$m	Specialised investment funds US$m	Total US$m
At 1 January 2019	140.5	43.7	–	14.8	199.0
Total gains/(losses) recognised in the income statement	17.5	(15.3)	–	2.0	4.2
Purchases	35.4	14.3	–	–	49.7
Sales	(11.0)	(27.9)	–	–	(38.9)
Foreign exchange gains	0.8	0.4	–	–	1.2
At 31 December 2019	183.2	15.2	–	16.8	215.2
Total losses recognised in the income statement	**(9.0)**	**(0.1)**	**–**	**(1.6)**	**(10.7)**
Purchases	**2.3**	**–**	**21.9**	**–**	**24.2**
Sales	**(48.4)**	**–**	**–**	**–**	**(48.4)**
Foreign exchange gains	**0.9**	**0.3**	**1.1**	**–**	**2.3**
At 31 December 2020	**129.0**	**15.4**	**23.0**	**15.2**	**182.6**

Total net losses recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to US$10.7m (2019 gains of: $4.2m). Included in this balance are US$6.3m of unrealised losses (2019: gains of US$19.1m) attributable to assets still held at the end of the year.

Sensitivity of level three financial investments measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of level three financial investments to changes in key assumptions.

	31 December 2020		31 December 2019	
	Carrying amount US$m	**Effect of possible alternative assumptions (+/-) US$m**	Carrying amount US$m	Effect of possible alternative assumptions (+/-) US$m
Equity securities	**129.0**	**2.4**	183.2	1.4
Debt securities	**15.4**	**1.0**	15.2	0.5
Mortgages and loans	**23.0**	**1.2**	–	–
Specialised investment funds	**15.2**	**0.4**	16.8	0.7
	182.6		215.2	

In order to determine reasonably possible alternative assumptions, the Group has monitored the price movements of the securities invested on a month by month basis during 2020, or since acquisition if acquired during the year. This has resulted in an average expected percentage change due to the change in assumptions, which forms the basis of this analysis.

24 Derivative contracts

This Note summarises the total value of the derivative contracts of the Group. It also explains how each derivative contract is categorised under three different levels of hierarchy, the valuation methods used to value derivative contracts and amounts transferred between levels. At 31 December 2020 and 31 December 2019, the options formed part of the investment management strategy, while the currency forwards formed part of the foreign exchange management strategy.

The disclosure provided in the tables below include derivatives recorded in the Group's statement of financial position.

Derivative contract assets

31 December 2020	Gross amounts of receivables on derivative contract assets US$m	Gross amounts of payables on derivative contract assets US$m	Derivative contract assets presented in the statement of financial position US$m
Currency forwards	**519.5**	**(508.9)**	**10.6**
Options	**1.5**	**(0.9)**	**0.6**
Industry loss warranty contracts	**0.2**	**–**	**0.2**
Sutton forward contract	**1.6**	**–**	**1.6**
Total return swap	**1.9**	**–**	**1.9**
Total	**524.7**	**(509.8)**	**14.9**
31 December 2019			
Currency forwards	561.6	(548.0)	13.6
Options	0.4	–	0.4
Industry loss warranty contracts	0.1	–	0.1
Call and put option over Camargue	10.4	(9.6)	0.8
Sutton forward contract	9.3	(8.5)	0.8
Total	581.8	(566.1)	15.7

Derivative contract liabilities

31 December 2020	Gross amounts of payables on derivative contract liabilities US$m	Gross amounts of receivables on derivative contract liabilities US$m	Derivative contract liabilities presented in the statement of financial position US$m
Currency forwards	**(634.3)**	**625.1**	**(9.2)**
Total	**(634.3)**	**625.1**	**(9.2)**
31 December 2019			
Currency forwards	(668.4)	654.2	(14.2)
Total	(668.4)	654.2	(14.2)

Disclosures of fair values in accordance with the fair value hierarchy

31 December 2020	Level two US$m	Level three US$m	Total US$m
Derivative contract assets	**12.7**	**2.2**	**14.9**
Derivative contract liabilities	**(9.2)**	**–**	**(9.2)**
31 December 2019			
Derivative contract assets	13.6	2.1	15.7
Derivative contract liabilities	(14.2)	–	(14.2)

Valuation techniques

Level two

The fair value of the vast majority of the Group's derivative contracts are based primarily on non-binding third-party broker-dealer quotes that are prepared using level two inputs. Where third-party broker-dealer quotes are used, typically one quote is obtained from a broker-dealer with particular expertise in the instrument being priced.

The valuation technique used to determine the fair value of currency forwards is derived from observable inputs such as active foreign-exchange and interest-rate markets that may require adjustments for certain unobservable inputs.

Level three

CPI-linked derivatives are classified as level three and valued using broker-dealer quotes which management has determined utilise market observable inputs except for the inflation volatility input which is not market observable. The reasonableness of the fair values of CPI-linked derivative contracts are assessed by comparing the fair values received from third-party broker-dealers to recent market transactions where available and values determined using third-party pricing software based on the Black-Scholes option pricing model for European-style options that incorporates market observable and unobservable inputs such as the current value of the relevant CPI underlying the derivative, the inflation swap rate, nominal swap rate and inflation volatility. The fair values of CPI-linked derivative contracts are sensitive to assumptions such as market expectations of future rates of inflation and related inflation volatilities.

The put and call options the Group has in respect of its associated undertakings have been classified as level three as the valuation of the options is derived from unobservable inputs which is linked to EBITDA calculations.

Reconciliation of movements in level three derivative contracts measured at fair value

	Put options US$m
At 1 January 2019	3.3
Total losses recognised in the income statement	(0.9)
Foreign exchange losses	(0.3)
At 31 December 2019	2.1
Purchases	**7.0**
Total losses recognised in the income statement	**(9.0)**
Foreign exchange gains	**2.2**
At 31 December 2020	**2.3**

Sensitivity of level three derivatives measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of level three derivatives to changes in key assumptions.

	31 December 2020		31 December 2019	
	Carrying amount US$m	**Effect of possible alternatives assumptions (+/-) US$m**	Carrying amount US$m	Effect of possible alternatives assumptions (+/-) US$m
Put options	**2.2**	**0.7**	2.0	0.6

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs, including inflation volatility inputs and credit risk inputs.

25 Insurance and other receivables

This Note sets out the various categories of amounts which are owed to the Group.

	31 December 2020 US$m	31 December 2019 US$m
Arising out of direct insurance operations	**611.4**	601.7
Arising out of reinsurance operations	**484.9**	470.0
Receivables from contracts with customers	**56.5**	19.6
Prepayments	**8.8**	14.2
Accrued income	**13.9**	14.3
Outstanding settlements on investments	**24.3**	6.1
Other assets	**43.6**	58.6
Other debtors	**58.6**	55.7
Total	**1,302.0**	1,240.2

Other assets relate to shares purchased to settle share-based payment awards. For further information, refer to Note 34.

26 Cash and cash equivalents

This Note analyses the amounts of cash and cash equivalents. Cash equivalents are investment instruments with less than 90 days left to maturity when purchased by the Group. Additional analysis which explains where cash and cash equivalents are held and why they are being held is also provided.

	31 December 2020 US$m	31 December 2019 US$m
Cash at bank and on deposit	**423.0**	229.9
Cash equivalents	**352.7**	290.2
Total	**775.7**	520.1

The carrying amounts disclosed above, reasonably approximate fair values.

The source of these amounts can be further analysed as follows:

Classification	Definition	31 December 2020 US$m	31 December 2019 US$m
Cash within segregated fund mandates	Short-term investment funds, money market funds, treasury bills or cash held within segregated mandates.	**172.4**	77.0
Lloyd's trust funds	Cash within the Lloyd's Overseas Deposits trust funds held to meet regulatory requirements.	**59.4**	41.6
Self-managed cash	Highly liquid instruments held to meet ongoing working capital requirements.	**543.9**	401.5
Total		**775.7**	520.1

27 Assets and liabilities of disposal group classified as held for sale

In December 2020 management committed to a plan to sell Commonwealth Insurance Company of America, a subsidiary of the Group. Accordingly, that business is presented as a disposal group held for sale. The sale was completed on 5 February 2021.

As at 31 December 2020, the disposal group was stated at the carrying amount of the relevant assets and liabilities, which comprised the following:

	31 December 2020 US$m
Assets classified as held for sale:	
Regulatory licenses	7.5
Reinsurance contracts	1.4
Financial investments	7.6
Cash equivalents	1.3
Total assets of disposal group held for sale	**17.8**
Liabilities directly associated with assets classified as held for sale:	
Insurance contracts	1.6
Insurance and other payables	0.2
Total liability of disposal group held for sale	**1.8**

28 Borrowings

This Note describes the main sources of borrowing available to the Group and the amounts currently borrowed from each of those sources.

				31 December 2020		31 December 2019	
	Maturity	Call	Effective interest rate	Amortised cost US$m	Fair value US$m	Amortised cost US$m	Fair value US$m
Non-current							
Subordinated debt	2030	–	3.7%	**184.5**	**170.4**	176.2	182.9
Revolving credit facility	2023	–	LIBOR +1.5%	**130.0**	**130.0**	140.0	140.0
				314.5	**300.4**	316.2	322.9

As at 31 December 2020 and 31 December 2019, the fair value of the subordinated debt was determined by reference to trading market values on recognised exchanges and was therefore categorised as a level one measurement in the fair value hierarchy. For further information relating to the fair value hierarchy, refer to Note 23.

Subordinated debt

The Group did not take up the option to call the subordinated debt on 9 December 2020. Following this date, the interest rate has reset to 3.6757%, being the higher of:

i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; and

ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

Revolving credit facility

The Group has a US$450.0m (2019: US$450.0m) revolving credit facility which expires on 31 December 2023.

At 31 December 2020, a US$130.0m (2019: US$80.0m) uncollateralised letter of credit had been utilised. In addition, there was a cash drawing of US$130.0m.

29 Other financial liabilities

This Note sets out the amount of financial liabilities owing to external investors in respect of structured entities consolidated by the Group

The statement of financial position of the Group includes financial liabilities arising from third-party investments in structured entities that are consolidated by the Group.

These financial liabilities have been designated as held at fair value through profit or loss. As at 31 December 2020, the fair value of the investments by independent third parties was US$62.0m (2019: US$75.5m), of which US$62.0m (2019: US$75.5m) related to other financial liabilities owing to investors in collateralised reinsurance arrangements.

The fair value of these liabilities was determined by reference to the underlying net assets of the vehicles and was therefore categorised as level three in the fair value hierarchy. Further information relating to the Group's approach to fair value measurement is available in Note 23.

30 Insurance and other payables

This Note sets out the various categories of amounts which are owed by the Group.

	31 December 2020 US$m	31 December 2019 US$m
Arising out of direct insurance operations	**68.4**	62.2
Arising out of reinsurance operations	**404.6**	437.0
Other taxes and social security costs	**3.0**	2.8
Accruals and deferred income	**58.1**	68.7
Lease liabilities	**54.6**	60.5
Outstanding settlements on investments	**–**	6.8
Other creditors	**32.0**	38.0
Total	**620.7**	676.0

The carrying amounts disclosed above reasonably approximate fair values as all amounts are payable within one year of the date of the statement of financial position.

Of the total lease liabilities recognised above, US$6.0m is a current liability (2019: US$6.5m).

31 Called up share capital

This Note sets out the number of shares the Company has in issue and their nominal value.

	31 December 2020 US$m	31 December 2019 US$m	31 December 2020 1p each Number	31 December 2019 1p each Number
Ordinary shares:				
Allotted, issued and fully paid	**8.6**	7.0	**568,837,653**	446,977,185

	Share premium US$m	Share capital US$m	Share capital Number
At 1 January 2019	435.1	6.8	430,549,278
Issue of class B shares	70.4	0.2	16,427,907
At 31 December 2019	505.5	7.0	446,977,185
At 1 January 2020	505.5	7.0	446,977,185
Issue of class B shares	522.4	1.6	121,860,468
At 31 December 2020	**1,027.9**	**8.6**	**568,837,653**

All shares currently in issue are class B. The number of shares reported is for Brit Limited, the immediate parent of the Brit Group.

On 07 April 2020, 46,511,628 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$200.0m. Following this share issuance, US$199.4m was recorded in the share premium accounts.

On 24 August 2020, 19,767,442 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$85.0m. Following this share issuance, US$84.7m was recorded in the share premium accounts.

On 28 August 2020, Fairfax purchased all 48,000,000 Class A shares from OMERS and increased its percentage shareholding to 100.00%. Simultaneously, these shares were converted to Class B shares.

On 21 September 2020, 3,488,373 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$15.0m. Following this share issuance, US$15.0m was recorded in the share premium accounts.

On 20 November 2020, 31,395,349 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$135.0m. Following this share issuance, US$134.6m was recorded in the share premium accounts.

On 23 November 2020, 3,720,931 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$16.0m. Following this share issuance, US$16.0m was recorded in the share premium accounts.

On 23 December 2020, 16,976,745 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$73.0m. Following this share issuance, US$72.8m was recorded in the share premium accounts.

32 Dividends

This Note gives details of the amounts paid to shareholders during 2020 and 2019 by way of dividends.

	2020 US$	2019 US$	2020 US$m	2019 US$m
Dividend paid in respect of prior year	**0.43**	0.43	**20.6**	20.6
			20.6	20.6

A US$20.6m dividend in respect of the year-ended 31 December 2019 was paid to the class A shareholders on 9 April 2020 in accordance with the shareholders' agreement at an amount equal to US$0.43 per share (2019: US$20.6m/US$0.43 per share).

33 Cash flows provided by operating activities

The tables below show how the profit for the year translates into cash flows generated from operating activities and provide a reconciliation of the liabilities arising from financing activities.

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
(Loss)/profit on ordinary activities before tax	**(230.5)**	186.3
Adjustments for non-cash movements:		
Realised and unrealised losses/(gains) on investments	**4.1**	(82.9)
Realised and unrealised losses on derivatives	**1.1**	17.6
Amortisation of intangible assets	**10.7**	8.7
Depreciation and impairment of property, plant and equipment	**8.9**	9.3
Foreign exchange gains on cash and cash equivalents	**(3.3)**	(3.8)
Share of gains after tax of associated undertakings	**(2.0)**	(0.3)
Profit on disposal of associated undertaking	**–**	(10.2)
Unrealised losses/(gains) on shares held for share based payments	**15.6**	(0.3)
Charges in respect of share-based payment schemes	**3.0**	7.0
Interest income	**(66.9)**	(81.6)
Dividend income	**(6.3)**	(5.7)
Finance costs on borrowing	**23.6**	23.7
Changes in working capital:		
Deferred acquisition costs	**(3.7)**	0.5
Insurance and other receivables excluding accrued income	**(77.5)**	(138.9)
Insurance and reinsurance contracts	**410.9**	63.7
Financial investments	**(423.2)**	(404.1)
Derivative contracts	**(5.3)**	(15.8)
Other financial liabilities	**(13.5)**	(166.3)
Insurance and other payables	**(55.7)**	123.6
Employee benefits	**(3.1)**	1.2
Provisions	**(1.2)**	1.3
Cash flows used in operating activities	**(414.3)**	(467.0)

Reconciliation of liabilities arising from financing activities

31 December 2020	Year ended 31 December 2019 US$m	Cash flows US$m	Non-cash changes Foreign exchange movement US$m	Other changes US$m	Year ended 31 December 2020 US$m
Long-term borrowings					
Subordinated debt	**176.2**	**(11.5)**	**5.8**	**14.1**	**184.6**
Short-term borrowings					
Revolving credit facility	**140.0**	**(12.5)**	**–**	**2.5**	**130.0**
Total liabilities from financing activities	**316.2**	**(24.0)**	**5.8**	**16.6**	**314.6**

31 December 2019	Year ended 31 December 2018 US$m	Cash flows US$m	Non-cash changes Foreign exchange movement US$m	Other changes US$m	Year ended 31 December 2019 US$m
Long-term borrowings					
Subordinated debt	166.9	(11.9)	6.8	14.4	176.2
Short-term borrowings					
Revolving credit facility	8.0	129.4	–	2.6	140.0
Total liabilities from financing activities	174.9	117.5	6.8	17.0	316.2

34 Share-based payments

The Group rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments and the charge recognised in the consolidated income statement in respect of these schemes.

The compensation cost recognised in the income statement under IFRS 2 'Share-based Payments' for the Group's share-based payments arrangements are shown below:

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Equity-settled plans		
Employee Share Ownership Plan	**1.3**	0.8
Cash-settled plans		
Long Term Incentive Plan	**1.7**	6.2
Total	**3.0**	7.0

The total liability in respect of cash-settled plans at 31 December 2020 was US$10.3m (2019: US$11.4m). In regard to the Long Term Incentive Plan, no gain or loss (2019: nil) is included in the consolidated statement of changes in equity in respect of equity settled plans. US$1.6m (2019: US$1.4m) is included within other creditors in respect of national insurance contributions on the share schemes. A further US$1.3m (2019: US$0.8m) of charges relating to the Employee Share Ownership Plan are equity-settled in nature but physically-settled in cash and so were not recorded in the consolidated statement of changes in equity.

(a) Long Term Incentive Plan (Performance Share Plan replacement)

On the Fairfax acquisition of Brit Limited, the 65% of PSP awards that did not immediately vest were converted by Fairfax into awards under this scheme. The conversion terms allowed for 60% of the 280p Brit Limited acquisition share price to be converted into the equivalent value of options to acquire shares in Fairfax at a nil exercise price. The options vested in November 2018 and there are a further seven years to exercise the options.

34 Share-based payments (continued)

Reconciliation of movement in the number of awards

	Year ended 31 December 2020 Number of awards	Year ended 31 December 2019 Number of awards
Outstanding at 1 January	**865**	1,271
Exercised	**(124)**	(406)
Outstanding at 31 December	**741**	865

In order to settle share-based payment awards, in 2015 the Group purchased US$10.7m of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax. Of the purchase, US$3.9m related to this scheme and was recorded within equity so as to offset the share-based payment charges recorded in equity on exercise of the awards. There were no additional shares purchased for this scheme in 2019 and 2020. The remaining 741 shares were exercisable at the year end.

(b) Long Term Incentive Plan

The Company awards selected employees options to acquire shares in Fairfax at a nil exercise price. Subject to continued service, the options vest between two and ten years after the grant date and there are a further five years to exercise the options.

The fair value of the awards are determined by the market price of the underlying shares at the valuation date. The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 10% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

Reconciliation of movement in the number of awards

	Year ended 31 December 2020 Number of awards	Year ended 31 December 2019 Number of awards
Outstanding at 1 January	**114,451**	55,981
Granted	**19,986**	61,309
Exercised	**(6,977)**	–
Forfeited	**(8,834)**	(2,839)
Outstanding at 31 December	**118,626**	114,451

The total intrinsic value at the end of the period of liabilities for awards that have been vested, but not exercised, amounted to $1.8m (2019: nil). The weighted average share price at the date of exercise for share options exercised during the period was $333.70 (2019: nil). The weighted average fair value at date of grant for awards granted during 2020 was US$340.54 (2019: US$459.56).

In order to settle share-based payment awards, in 2020 the Group purchased US$3.0m (2019: US$25.0m) of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax. This has been recorded within Other Assets so as to offset the share-based payment recorded as a liability within Other Creditors that accrues over the vesting period of the awards.

(c) Employee Share Ownership Plan

Under the terms of the ESOP which was established in 2015, eligible employees are given the election to purchase common shares in Fairfax in an amount up to 10% of their annual base salary. The Company purchases, on the employee's behalf, a number of Fairfax's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves certain performance targets, additional shares are purchased by the Company for the employee's benefit, to an amount equal in value to 20% of the employee's contribution during that year. In respect of both shares purchased by employees and matched by the Company, during the year ended 31 December 2020, the Company purchased a total of 11,749 common shares in Fairfax (2019: 7,001) at an average price of US$329.63 (2019: US$464.93) in respect of this plan.

35 Consolidated entities

This Note sets out all the entities which are members of the Brit Limited Group and whose results and financial positions are consolidated to produce the Group result and financial position.

All subsidiaries of the Company are 100% owned apart from the Group's special purpose vehicles. For these vehicles, funding is provided through preference share capital or other unitised issuances. The Group holds 86% of the capital of the Versutus segregated account consolidated by Brit. The Group also holds 48% and 100% investments in The Diversified Fund and the Specialty Insurance Fund respectively, which are segregated accounts within Sussex Capital Limited. The Group has consolidated all segregated accounts of Sussex Re Limited and protected cells Sussex Capital UK PCC Limited apart from those where the investment therein has been made directly by investors that are external to the Brit Group.

On 16 October 2018 Advent Capital (Holdings) Limited, another subsidiary of the Fairfax group, invested US$165.5m in the HWIC Long-Term Value Strategies UCITS CCF resulting in a reduction of Brit's ownership in the fund from 100% to 64.2%. This investment was divested in Q1 2019 and the UCITS vehicle was subsequently liquidated.

As mentioned in Note 2.2, 18.46% of the 2018 year of account result and assets of syndicate 2988 is included in these consolidated financial statements. 60.70% of the 2020 year of account result and assets of syndicate 2988 is included in these consolidated financial statements.

On 23 September 2020 and 24 November 2020, Brit Limited invested US$15m and US$16m respectively into Ki Financial Limited. The Group holds 20.0% of the share capital of Ki Financial Limited and 51.0% of the voting rights. The entity is consolidated in full by the Group.

The subsidiaries of the company at 31 December 2020, together with their main function, are listed below by country of incorporation. The registered address and principal place of business of each entity is The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB unless otherwise stated.

Subsidiary	Principal activity	Registered address and principal place of business
United Kingdom		
Brit Insurance Holdings Limited	Intermediate holding company	The Leadenhall Building
Brit Syndicates Limited	Lloyd's managing agent	The Leadenhall Building
Brit UW Limited	Lloyd's corporate member	The Leadenhall Building
Brit Insurance Services Limited	Service company	The Leadenhall Building
Brit Investment Holdings Limited	Service company	The Leadenhall Building
Brit Group Services Limited	Group services company	The Leadenhall Building
Brit Group Finance Limited	Group services company	The Leadenhall Building
BGS Services (Bermuda) Limited	Service company	The Leadenhall Building
Brit Pension Trustee Limited	Service company (Dormant)	The Leadenhall Building
Brit Corporate Services Limited	Service company (Dormant)	The Leadenhall Building
Brit Corporate Secretaries Limited	Service company (Dormant)	The Leadenhall Building
Sussex Capital UK PCC Limited	Special purpose vehicle	The Leadenhall Building
Nameco (No. 1341) Limited	Lloyd's corporate member	5th Floor, 40 Gracechurch Street, London, EC3V 0BT
Ambridge Europe Limited	Insurance intermediary	c/o PKF Littlejohn 15 Westferry Circus, Canary Wharf, London, E14 4HD
Ambridge European Holdings Limited	Service company	c/o PKF Littlejohn 15 Westferry Circus, Canary Wharf, London, E14 4HD
Ki Financial Limited	Intermediate holding company	The Leadenhall Building
Ki Capital Solutions Limited	Service company (Dormant)	The Leadenhall Building
Ki Technology Limited	Service company (Dormant)	The Leadenhall Building
Ki Member Limited	Service company (Dormant)	The Leadenhall Building
Ki Group Services Limited	Service company (Dormant)	The Leadenhall Building

35 Consolidated entities (continued)

United States of America		
Brit Insurance Services USA Inc.	Service company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Brit Insurance USA Holdings Inc.	Intermediate holding company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Scion Underwriting Services Inc.	Service company	3,333 Lee Parkway, Suite 627, Dallas, TX, 75219
Commonwealth Insurance Company of America	Insurance company	250 Commercial Street, Suite 5000, Manchester, NH, 03101
Ambridge Partners LLC	Insurance intermediary	251 Little Falls Drive, Wilmington, DE 19808
Ambridge Due Diligence Services LLC	Service company (Dormant)	251 Little Falls Drive, Wilmington, DE 19808
Brit USA Services Company Inc.	Service company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Bermuda		
North America Property Insurance Series 2017 Account A-3 (a segregated account within Versutus Limited)	Special purpose vehicle	Clarendon House, 2 Church Street, Hamilton HM 11
Sussex Capital Management Limited	Service company	Ground Floor Chesney House, The Waterfront, 96 Pitts Bay Road, Pembroke, HM 08
Sussex Capital Limited	Special purpose vehicle	Wessex House, 3rd Floor, 45 Reid Street, Hamilton HM 12
Sussex Re Limited	Special purpose vehicle	Wessex House, 3rd Floor, 45 Reid Street, Hamilton HM 12
Brit Reinsurance (Bermuda) Limited	Insurance company	Ground Floor Chesney House, The Waterfront, 96 Pitts Bay Road, Pembroke, HM 08
Singapore		
Brit Global Specialty Singapore Pte. Ltd.	Service company	138 Market St., #04-03 CapitaGreen, 048946
The Netherlands		
Brit Insurance Holdings B.V.	Former holding company	The Leadenhall Building
Germany		
Ambridge Europe GmbH & Co. KG	Insurance intermediary	Grüneburgweg 58 – 62, 60322 Frankfurt am Main, Germany
Ambridge German Holdings GmbH	Service company	Grüneburgweg 58 – 62, 60322 Frankfurt am Main, Germany

36 Related party transactions and Ultimate Parent Company

The Group has a number of related parties which includes its principal investors and its Directors. Sometimes it transacts business with these related parties. This Note sets out those transactions.

The Group carries out a number of transactions with related parties which include, paying management fees, carrying out insurance and reinsurance activities with affiliates of the ultimate parent company, Fairfax Financial Holdings Limited, and trading with its associates. All the transactions with related parties are undertaken on an arm's-length basis.

(a) Ultimate Parent Company

The ultimate parent company and controlling entity, and the largest group of which the Group is a member, is Fairfax Financial Holdings Limited (Fairfax) which is registered in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements for Fairfax are publicly available and can be obtained from the Corporate Secretary, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.

(b) Fairfax Financial Holdings Limited

In June 2015, Hamblin Watsa Investment Counsel Limited (HWIC), an affiliate of Fairfax, was appointed as an investment manager to a number of Group companies. During the year ended 31 December 2020, the Group incurred and paid investment management fees to HWIC of US$11.0m (2019: US$9.8m).

The Group has historically entered into various reinsurance arrangements with affiliates of Fairfax.

In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of Fairfax were as follows:

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Gross premiums written	**16.8**	48.0
Less premiums ceded to reinsurers	**(17.8)**	(18.6)
Premiums written, net of reinsurance	**(1.0)**	29.4
Gross amount of change in provision for unearned premiums	**3.9**	(2.4)
Reinsurers' share of change in provision for unearned premiums	**(2.4)**	5.7
Net change in provision for unearned premiums	**1.5**	3.3
Earned premiums, net of reinsurance	**0.5**	32.7
Gross claims paid	**(7.0)**	(12.9)
Reinsurers' share of claims paid	**19.7**	43.6
Claims paid, net of reinsurance	**12.7**	30.7
Gross change in the provision for claims	**(5.7)**	(0.3)
Reinsurers' share of change in the provision for claims	**(4.8)**	(39.3)
Net change in the provision for claims	**(10.5)**	(39.6)
Commission income	**0.8**	–
Commission expense	**(3.3)**	(10.7)

36 Related party transactions and Ultimate Parent Company (continued)

The amounts included in the statement of financial position outstanding with Fairfax and its affiliates as at 31 December 2020 were as follows:

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Debtors arising out of direct insurance and reinsurance operations:		
Insurance premium receivable	**7.9**	7.9
Recoverable from reinsurers	**17.2**	157.9
Creditors arising out of direct insurance and reinsurance operations:		
Payable to reinsurers	**(4.8)**	(8.1)
Unpaid claims liabilities	**(49.3)**	(50.7)
Deferred acquisition costs	**1.1**	1.9
Gross unearned premiums	**(5.7)**	(9.9)
Unearned premium recoverable from reinsurers	**3.8**	6.2

(c) Associated undertakings

Camargue Underwriting Managers Proprietary Limited
On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) and also entered into a call and a put option to purchase the remaining 50% in 2021. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit.

Trading with Camargue is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Camargue for the year ended 31 December 2020 included commission for introducing insurance business of US$2.9m (2019: US$2.9m).

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Camargue as at 31 December 2020 and 2019 were not material.

Sutton Special Risk Inc
On 2 January 2019, Brit Insurance Holding Limited, acquired 49% of the issued shares of Sutton for a total purchase consideration of CAD$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian MGU, specialising in Accident and Health business.

Trading with Sutton is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Camargue for the year ended 31 December 2020 included commission for introducing insurance business of US$2.6m (2019: US$1.1m).

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Sutton as at 31 December 2020 were not material.

(d) Advent Capital (Holdings) Limited

In 2018 Brit was the majority investor in the HWIC Long-Term Value Strategies UCITS CCF, which was consolidated by the Group. On 16 October 2018 another company within the Fairfax group, Advent Capital (Holdings) Limited, invested US$175.5m in this UCITS, resulting in an ownership of 35.8% of the fund. However, in early 2019, work was completed by HWIC and FFS Management Services to open two new fund structures (the Global Equity QIAIF and the Value Opportunities QIAIF) to investors within the Fairfax group of companies and, as a consequence, the HWIC Long-Term Value Strategies UCITS CCF ceased operation in March 2019, resulting in Advent's disinvestment from the vehicle.

(e) Crum and Forster commission agreement

On 1 May 2018, Brit Insurance Services USA, Inc. (BISI) entered into a binding authority agreement with Crum and Forster Specialty (C&F), another subsidiary of the Fairfax group. C&F has authorized BISI to bind certain commercial insurance contracts on their behalf. BISI earns a commission of up to 26.7% for this business including external broker commission. The agreement will continue in perpetuity until BISI or C&F provide written notice of cancellation. During 2020, C&F paid BISI US$5.8k (2019: US$830.1k) in respect of commission. US$140.8k was outstanding at the year-end (2019: US$82.0k).

(f) Key management compensation

The amount of the emoluments granted in respect of the financial year to the members of the administrative, managerial and supervisory bodies by reason of their responsibilities, and any commitments arising or entered into in respect of retirement pension for former members of those bodies, are broken down as follows:

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Salaries and other short-term employee benefits	**8.6**	6.5
Post-employment benefits	**0.8**	0.7
Share-based payments	**1.6**	3.9
Termination benefits	**0.1**	–
Total compensation	**11.1**	11.1

For the purposes of IAS 24, 'Related Party Disclosures', key managers are defined as the Board of Directors and members of the Executive Committee which is the primary vehicle for implementing Board decisions in respect of UK-managed operations.

As at 31 December 2020, US$0.4m was recorded in the statement of financial position in respect of unsecured loans to key management personnel. These loans were recognised during the year, are expected to be settled in cash, carry an annual interest charge of 2.25%, and have no fixed maturity date.

37 Guarantees and contingent liabilities

This Note explains guarantees issued by Group companies and any contingent liabilities they may be exposed to.

(a) Lloyd's
Assets have been pledged, as Funds at Lloyd's, by way of deposits and fixed and floating charges for companies within the Group that participate on Lloyd's syndicates, including Brit UW Limited, the principal corporate member of the Group. As at 31 December 2020 the Funds at Lloyd's requirement amounted to US$1,598.8m (2019: US$1,285.5m) in respect of Brit UW Limited, and US$152.3m (2019: US$5.0m) in respect of other companies within the Group.

(b) Credit facilities
The Group has a US$450.0m (2019: US$450.0m) revolving credit facility which expires on 31 December 2023. At 31 December 2020, a US$130.0m (2019: US$80.0m) uncollateralised letter of credit had been utilised in respect of this facility. In addition, there was a cash drawing of US$130.0m.

The Group also has a US$50.0m Letter of Credit Facility, which expires on 31 December 2024, and which had been fully utilised at the year-end.

(c) Taxation
The Group operates in a wide variety of jurisdictions around the world through its Lloyd's syndicate and uncertainties therefore exist with respect to the interpretation of complex tax laws and practices of those territories. The Group establishes provisions for taxes other than current and deferred income taxes, based upon various factors which are continually evaluated, 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.

Income taxes are provided for as set out in accounting policy Note 2.5.11.

38 Events occurring after the reporting date

This Note sets out how events occurring after the reporting date relate to the financial position and performance of the Group in the reporting period.

(a) FCA business interruption case
On 15 January 2021, the UK Supreme Court upheld the judgement on the Financial Conduct Authority's COVID-19 related business interruption 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 was not party to this action, the outcome of which does not have a material impact on the Group. Brit is committed to paying all valid claims and has maintained sufficient reserves to fulfil its contractual obligations.

(b) Sale of Commonwealth Insurance Company of America
The disposal of the Commonwealth Insurance Company of America (CICA) completed on 5 February 2021 for a consideration of US$19.7m. Brit originally acquired CICA in April 2018 at a cost of US$16.4m. As at 31 December 2020, the assets and liabilities of CICA were recorded within the balance sheet lines of Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale, reflecting the Group's expectation of sale in 2021.

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Introduction to the Parent Company Financial Statements

Statement of Financial Position

The statement of financial position is a summary of assets and how the assets have been funded through liabilities and equity investment by shareholders.

Statement of Changes in Equity

The statement of changes in equity shows how the various lines in the equity section of the Company's statement of financial position have moved during the year.

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statement of financial position

At 31 December 2020

	Note	31 December 2020 US$m	31 December 2019 US$m
Fixed assets			
Investments:			
Shares in Group undertakings	3	**1,081.5**	1,050.5
Loans to Group undertakings	4	**140.9**	136.6
		1,222.4	1,187.1
Current assets			
Debtors: Amounts falling due within one year	5	**555.6**	78.7
Cash at bank and in hand		**0.1**	0.3
		555.7	79.0
Current liabilities			
Creditors: Amounts falling due within one year	6	**(0.9)**	(0.7)
Net current assets		**554.8**	78.3
Total assets less current liabilities		**1,777.2**	1,265.4
Creditors: Amounts falling due after more than one year	7	**(184.5)**	(179.4)
Net assets		**1,592.7**	1,086.0
Capital and reserves			
Called up share capital	8	**8.6**	7.0
Share premium		**1,027.9**	505.5
Capital redemption reserve		**1.0**	1.0
Retained earnings		**555.2**	572.5
Total equity		**1,592.7**	1,086.0

The accompanying Notes are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 16 February 2021 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

statement of changes in equity

For the year ended 31 December 2020

	Note	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Retained earnings US$m	Total equity US$m
1 January 2020		**7.0**	**505.5**	**1.0**	**572.5**	**1,086.0**
Total comprehensive income for the year		–	–	–	3.3	3.3
Issuance of share capital	8	1.6	522.4	–	–	524.0
Dividend	11	–	–	–	(20.6)	(20.6)
At 31 December 2020		**8.6**	**1,027.9**	**1.0**	**555.2**	**1,592.7**

For the year ended 31 December 2019

	Note	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Retained earnings US$m	Total equity US$m
1 January 2019		6.8	435.1	1.0	598.4	1,041.3
Total comprehensive income for the year		–	–	–	(5.3)	(5.3)
Issuance of share capital	8	0.2	70.4	–	–	70.6
Dividend	11	–	–	–	(20.6)	(20.6)
At 31 December 2019		**7.0**	**505.5**	**1.0**	**572.5**	**1,086.0**

notes to the financial statements

1 Accounting policies and basis of preparation

This Note provides details of the basis of preparation and accounting policies applied in producing these parent company financial statements.

1.1 Basis of preparation

The Company financial statements present the information about the company as a separate entity. The Company is incorporated and registered in England and Wales with registration number 08821629. The registered office of the company at the date of this report is The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

The Company has prepared its financial statements in accordance with Financial Reporting Standard 'FRS 102', the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland and provisions of Section 396 of the Companies Act 2006.

No individual income statement is presented for the Company, as permitted by Section 408 of the Act. The comprehensive income dealt with in the financial statements of the parent company was a US$3.3m gain (2019: US$5.3m loss).

The Company financial statements are presented in US dollars and all values are rounded to the nearest US$0.1m except where otherwise indicated.

1.2 Accounting policies

(a) Investments

Investments in subsidiary undertakings are stated at cost less provisions for any impairment.

(b) Income from fixed asset investments

Dividend income is recognised when the shareholders' right to receive the payment is established.

(c) Long-term debt

Long-term debt is recognised initially at transaction price which is the fair value. It is subsequently measured at amortised cost using the effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest payable is recognised using the effective interest rate method.

(d) Loans to Group undertakings

Loans to Group undertakings are recognised initially at transaction price which is the fair value, (including transaction costs incurred except in the initial measurement of financial liabilities that are measured at fair value through profit or loss) and subsequently measured at amortised cost using effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest receivable is recognised using the effective interest rate method.

(e) Expenses

All expenses are accounted for on an accruals basis.

(f) Foreign currencies

Transactions in foreign currencies other than US dollars are converted at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions are converted at the average rates of the exchange for the period. Assets and liabilities in currencies other than Sterling are converted at the rate of exchange ruling at 31 December of each year. Exchange differences arising on conversion are dealt with in the income statement.

(g) Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the statement of financial position date, dividends have been accrued as receivable;
- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax asset/liability shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the Directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

2 Auditor's remuneration

This Note sets out the fees paid in respect of the annual audit performed on the Company.

Audit fees borne by the Company amounted to US$15,525 (2019: US$15,525).

3 Shares in Group undertakings

This Note explains the direct shareholdings of the Company in other Group entities.

	31 December 2020 US$m	31 December 2019 US$m
Investment in Brit Insurance Holdings Limited	**1,050.5**	1,050.5
Investment in Ki Financial Limited	**31.0**	–
	1,081.5	1,050.5

On 23 September and 24 November, the Company made investments of US$15.0m and US$16.0m respectively in Ki Financial Limited.

The subsidiaries of the Company at 31 December 2020, and their principal activities, are disclosed in the Brit Limited consolidated financial statements.

4 Loans to Group undertakings

This Note sets out moneys lent by the Company to other Group companies.

	31 December 2020 US$m	31 December 2019 US$m
Loans to Group undertakings	**140.9**	136.6

On 8 September 2014, a long-term loan to another Group company was novated to Brit Limited at fair value. The agreement carries interest at an annual interest rate of 7.05%.

5 Debtors: Amounts falling due within one year

This Note sets out moneys owed to the Company that are due before 31 December 2021.

	31 December 2020 US$m	31 December 2019 US$m
Interest receivable on loans to Group undertakings	**22.5**	12.2
Amounts owed by Group undertakings	**532.4**	65.9
Prepayments	**0.7**	0.6
Total	**555.6**	78.7

6 Creditors: Amounts falling due within one year

This Note sets out moneys owed by the Company that are due before 31 December 2021.

	31 December 2020 US$m	31 December 2019 US$m
Accruals and deferred income	**0.9**	0.7
Total	**0.9**	0.7

7 Creditors: Amounts falling due after more than one year

This Note sets out moneys owed by the Company that are due after 31 December 2021.

				31 December 2020		31 December 2019	
	Maturity	Call	Effective interest rate	**Amortised cost US$m**	**Fair value US$m**	Amortised cost US$m	Fair value US$m
Subordinated debt	2030	–	3.7%	**184.5**	**170.4**	179.4	182.9

The fair value of the subordinated debt has been determined by reference to trading market values on recognised exchanges and is categorised as level one in the fair value hierarchy.

The subordinated debt was novated to the Company from another Group company on 8 September 2014 at fair value.

The subordinated debt is listed and callable in whole by the Company on 9 December 2020. Following this date, the interest rate reset to 3.6757%, being the higher of:

i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; and

ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

8 Called up share capital

This Note sets out the number of shares in issue and their nominal value.

	31 December 2020 US$m	31 December 2019 US$m	31 December 2020 1p each Number	31 December 2019 1p each Number
Ordinary shares:				
Allotted, issued and fully paid	**8.6**	7	**568,837,653**	446,977,185

All shares currently in issue are class B.

	Share premium US$m	Share capital US$m	Share capital Number
At 1 January 2019	435.1	6.8	430,549,278
Issue of new class B shares	70.4	0.2	16,427,907
At 31 December 2019	505.5	7.0	446,977,185
At 1 January 2020	**505.5**	**7.0**	**446,977,185**
Issue of new class B shares	522.4	1.6	121,860,468
At 31 December 2020	**1,027.9**	**8.6**	**568,837,653**

On 07 April 2020, 46,511,628 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$200.0m. Following this share issuance, US$199.4m was recorded in the share premium accounts.

On 24 August 2020, 19,767,442 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$85.0m. Following this share issuance, US$84.7m was recorded in the share premium accounts.

On 28 August 2020, Fairfax purchased all 48,000,000 Class A shares from OMERS and increased its percentage shareholding to 100.00%. Simultaneously, these shares were converted to Class B shares.

On 21 September 2020, 3,488,373 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$15.0m. Following this share issuance, US$15.0m was recorded in the share premium accounts.

On 20 November 2020, 31,395,349 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$135.0m. Following this share issuance, US$134.6m was recorded in the share premium accounts.

On 23 November 2020, 3,720,931 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$16.0m. Following this share issuance, US$16.0m was recorded in the share premium accounts.

On 23 December 2020, 16,976,745 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$73.0m. Following this share issuance, US$72.8m was recorded in the share premium accounts.

9 Directors' emoluments

This Note gives a breakdown of emoluments paid to Directors both in total and in respect of the highest paid Director.

	31 December 2020 US$m	31 December 2019 US$m
Aggregate remuneration	**4.8**	4.7
Aggregate contributions to money purchase pension schemes	**0.1**	0.1
Total	**4.9**	4.8
The Directors' remuneration disclosed above includes the following amounts paid to the highest paid Director:		
Aggregate remuneration	**2.8**	2.7
	Number	Number
Number of Directors with benefits accruing under money purchase pension schemes	**1**	1
Number of Directors in respect of whose qualifying services, shares were received or receivable under long-term incentive schemes	**2**	2

Shares were received or receivable by the highest paid Director in respect of qualifying services under a long-term incentive scheme during 2020 and 2019.

10 Guarantees and contingent liabilities

This Note explains guarantees issued by the Company. The Company has no contingent liabilities.

The Company has access to a US$450.0m (2019: US$450.0m) revolving credit facility which expires on 31 December 2023. Guarantees have been made by Brit Limited and a subsidiary company to the syndicated banks providing the facility.

11 Dividends

This Note gives details of the amounts paid to shareholders during 2020 and 2019 by way of dividends.

	2020 US$	2019 US$	2020 US$m	2019 US$m
Dividend paid in respect of prior year	**0.43**	0.43	**20.6**	20.6
			20.6	20.6

A US$20.6m dividend in respect of the year-ended 31 December 2019 was paid to the class A shareholders on 9 April 2020 in accordance with the shareholders' agreement at an amount equal to US$0.43 per share (2019: US$20.6m/US$0.43 per share).

12 Share-based payments

The Company rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments.

Further detail in respect of the Group's share-based incentive schemes can be found in Note 34 of the notes accompanying the Brit Limited Group consolidated Financial Statements.

13 Disclosure exemptions

This Note explains the Company's approach to qualifying exemptions available in FRS 102.

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:

- Statement of cash flows;
- A reconciliation of shares outstanding at the beginning and end of the period;
- Specific information relating to financial instruments that is included within equivalent disclosures for the Group;
- Specific information relating to share-based payments that is included within equivalent disclosures for the Group; and
- Disclosure of key management personnel compensation.

The Brit Limited consolidated financial statements and accompanying notes provide further detail in respect of these areas.

14 Ultimate Parent Company

The ultimate parent company and controlling entity, and the largest group of which the Group is a member, is Fairfax Financial Holdings Limited (Fairfax) which is registered in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements for Fairfax are publicly available and can be obtained from the Corporate Secretary, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.

reconciliation of key performance indicators to the financial statements

Return on net tangible assets before FX movements (RoNTA)

Return on net tangible assets before foreign exchange movements (RoNTA) shows the return being generated by our operations compared to the adjusted net tangible assets deployed in our business.

	Comment/financial statements reference	2020 US$m	2019 US$m
PAT	Consolidated income statement	(232.0)	179.9
Add back: Tax adjusted amortisation	Amortisation of intangibles, adjusted by the tax rate	8.7	7.1
Add back: Tax adjusted FX	FX effect for the year, adjusted by the tax rate	(3.8)	(2.8)
PAT, adjusted for RoNTA calculation		(227.1)	184.2
Adjusted NTA at start of year	See 'Total Value Created' section below.	1,150.4	992.9
External distributions and share issuances	Weighted adjustment to reflect distributions and shares issued during the year.	10.2	25.8
NTA, adjusted for RoNTA calculation		1,160.6	1,018.7
RoNTA		(19.6)%	18.1%

Total value created

The total value created measures the increase in adjusted NTA (including distributions) in a year. It reflects the after tax result recorded in the income statement and all other value movements.

	Comment/financial statements reference	2020 US$m	2019 US$m
Total equity attributable to owners of the parent	Consolidated statement of financial position	1,592.6	1,319.9
Less: Intangible assets	Consolidated statement of financial position	(181.2)	(192.6)
Net tangible assets		1,411.4	1,127.3
Add back deferred tax liability on intangible assets	Note 20: Deferred taxation	25.4	23.1
Adjusted net tangible assets		1,436.8	1,150.4
Adjusted NTA at end of year		1,436.8	1,150.4
Less: Adjusted NTA at start of year		(1,150.4)	(992.9)
Movement in adjusted NTA		286.4	157.5
Add: Intangibles and goodwill acquired on acquisition of Ambridge		–	91.1
Less: Issuance of share capital, repurchase of shares and dividend paid	Consolidated statement of changes in equity	(503.4)	(50.0)
Total value created		(217.0)	198.6

Combined ratio

The combined ratio is our key underwriting metric and measures the profitability of our underwriting. It shows how much of every US$1 of premium is spent in the total costs of sourcing and underwriting the business and settling claims. A combined ratio under 100% indicates underwriting profitability.

	Comment/financial statements reference	2020 US$m	2019 US$m
Earned premium, net of reinsurance	Note 5: Segmental information	**1,713.9**	1,638.5
Adjustments for share of third-party vehicles	See note (i) below	**(12.2)**	(14.8)
Adjusted earned premium, net of reinsurance		**1,701.7**	1,623.7
Attritional losses		**(897.7)**	(899.4)
Major claims		**(404.8)**	(61.6)
Reserve releases		**63.4**	46.5
Claims incurred, net of reinsurance	Note 5: Segmental information	**(1,239.1)**	(914.5)
Attritional losses – Adjustments for share of third-party vehicles	See note (i) below	**3.4**	5.7
Major losses – Adjustments for share of third-party vehicles	See note (i) below	**1.6**	3.2
Reserve releases – Adjustments for share of third-party vehicles	See note (i) below	**(1.9)**	1.4
Adjusted claims incurred, net of reinsurance		**(1,236.0)**	(904.2)
Acquisition costs – commissions	Note 5: Segmental information	**(454.3)**	(443.3)
Acquisition costs – other and Other insurance related expenses	Note 5: Segmental information	**(259.7)**	(255.7)
Other income		**29.7**	45.6
Acquisition costs – commissions – Adjustments for share of third-party vehicles	See note (i) below	**1.0**	1.7
Acquisition costs – other and Other insurance related expenses – Adjustments for share of third-party vehicles and non-controlling interest	See note (i) below	**2.7**	0.2
Adjusted underwriting expenses		**(680.6)**	(651.5)
Derivative contracts		**–**	0.4
Underwriting profit/(loss)		**(215.0)**	68.4
Loss ratio	Attritional losses/Earned premium, net of reinsurance	**52.6%**	55.0%
Major claims ratio	Major claims/Earned premium, net of reinsurance	**23.7%**	3.6%
Reserve release ratio	Reserve releases/Earned premium, net of reinsurance	**(3.6)%**	(2.9)%
Claims ratio	Note 5: Segmental information	**72.6%**	55.7%
Commission ratio	Acquisition costs – commissions	**26.6%**	27.2%
Operating expense ratio	Acquisition costs – other and Other insurance related expenses	**13.4%**	12.9%
Underwriting expense ratio	Note 5: Segmental information	**40.0%**	40.1%
Combined ratio	Claims ratio + Underwriting expense ratio; Note 5: Segmental information	**112.6%**	95.8%

Note (i): On the face of the consolidated income statement, the third-party share of our underwriting is consolidated, with the net impact eliminated through 'gains on other financial liabilities'. These adjustments reallocate this elimination on a line by line basis, thereby giving a fairer view of Brit's underwriting performance as attributable to its shareholders.

reconciliation of key performance indicators to the financial statements

Investment return

We assess the performance of our investment portfolio by comparing the return generated by our invested assets, net of external investment related expenses, against the value of those invested assets.

	Comment/financial statements reference	2020 US$m	2019 US$m
Share of net profit of associates	Note 14: Investment in associated undertakings	**2.0**	0.3
Return on financial investments and cash and cash equivalents	Note 6: Investment return (Note 1)	**57.4**	150.6
Return on investment related derivatives	Note 7: Return on derivative contracts	**(13.9)**	(2.8)
Return on invested assets		**45.5**	148.1
Investment in associated undertakings	Note 14: Investment in associated undertakings	**20.5**	19.4
Financial investments	Note 23: Financial investments	**4,056.6**	3,640.6
Derivative contracts (investment related)	Note 24: Derivative contracts	**4.3**	2.1
Cash and cash equivalents	Note 26: Cash and cash equivalents	**775.7**	520.1
Invested assets		**4,857.1**	4,182.2
Opening invested assets		**4,182.2**	3,846.7
Closing invested assets (Note 1)		**4,857.1**	4,182.2
Average invested assets		**4,519.7**	4,014.5
Return (%)	Return on invested assets/Average invested assets	**1.0%**	3.6%

Note 1 – Adjusted for third-party share of investment return

Capital ratio

The capital ratio measures the strength of our statement of financial position by comparing our available capital resources to the capital we need to hold to meet our management entity capital requirements. It is calculated as follows:

	Comment/financial statements reference	2020 US$m	2019 US$m
Total equity attributable to owners of the parent	Consolidated statement of financial position	**1,592.6**	1,319.9
Less: Intangible assets	Consolidated statement of financial position	**(181.2)**	(192.6)
Net tangible assets		**1,411.4**	1,127.3
Add: Deferred tax liability on intangible assets	Note 20: Deferred taxation	**25.4**	23.2
Adjusted net tangible assets		**1,436.8**	1,150.5
Subordinated debt	Note 28: Borrowings	**184.5**	176.2
Letters of credit/contingent funding	Under our capital policy we have identified a maximum of US$250.0m of our revolving credit facility to form part of our capital resources. In addition, we have identified the owners of the parent's share of the letter of credit held to support Ki's underwriting.	**260.0**	250.0
Total available capital resources		**1,881.3**	1,576.6
Management entity capital requirements	The capital required by an entity for business strategy and regulatory requirements.	**(1,540.3)**	(1,227.7)
Excess of resources over management entity capital requirements		**341.0**	348.9
Capital ratio		**122.1%**	128.4%

Ratio of front office employees to back office employees

This measure monitors the efficiency of our business model by comparing the number of front office client-facing revenue generators and service providers to the number of back office employees. An increase in the ratio would suggest that the back office is becoming more efficient in supporting the client-facing activities of the front office.

	Comment/financial statements reference	2020 Number	2019 Number
Total front office staff	Note 11: Staff costs	**441**	427
Total back office staff	Note 11: Staff costs	**313**	283
Total employees	Note 11: Staff costs	**754**	710
Ratio of front office employees to back office employees	Total front office staff/Total back office staff	**140.9%**	150.9%

company information

Directors

Mr Gordon Campbell – Chair
Mr Matthew Wilson – Group Chief Executive Officer
Mr Mark Allan – Group Chief Financial Officer
Mr Andrew Barnard – Non-executive Director
Ms Andrea Welsch – Non-executive Director

Company Secretary

Mr Tim Harmer

Registered Office

The Leadenhall Building
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London EC3V 4AB
UK
Telephone: +44 (0) 20 3857 0000

Website

www.britinsurance.com
The Company website provides information about Brit Limited including information on the business, annual reports, half yearly reports and announcements to the London Stock Exchange.

Registered Number

08821629

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

glossary

A

Acquisition costs: Costs incurred in the course of writing business and issuing policies including commissions paid to intermediaries and related internal expenses such as underwriter related costs.

Adjusted net tangible assets or **adjusted NTA:** Total equity, less intangible assets net of the deferred tax liability on those intangible assets, less non-controlling interest.

Adjusted net tangible assets per share: Calculated as closing adjusted net tangible assets divided by the number of shares in issue at the reporting date, less own shares.

Aggregate exposure: The expected maximum total of claims that could be incurred by an insurer in respect of any event or series of similar events. Also see 'realistic disaster scenarios'.

Asset allocation: The allocation of our investments across different kinds of asset classes, such as equities, bonds, and cash, in order to achieve a balance between return and risk.

Attritional losses: Common losses, as opposed to major or catastrophe losses, incurred from ordinary insurance and/or reinsurance operations.

Available capital resources: Adjusted net tangible assets, subordinated debt and letters of credit/contingent funding.

B

BGSB: Brit Global Specialty Bermuda, the business of the Group operating in Bermuda.

BGSU: Brit Global Specialty USA, the business of the Group operating in the United States, of which BISI is the managing general agent.

Binder business: Business conducted by a coverholder acting under a binding authority.

Binding authority: See 'delegated underwriting authority'.

BISI: Brit Insurance Services USA, Inc., a company incorporated in Illinois, USA.

Brit Re: Brit Reinsurance (Bermuda) Limited.

BMA: Bermuda Monetary Authority, the integrated regulator of financial services in Bermuda, established under the Bermuda Monetary Authority Act 1969.

Broker: An intermediary who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered.

C

Captive: An entity that provides risk-mitigation services for other entities within the same Group only.

Catastrophe or **Cat:** Perils including earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability.

Claims: Moneys demanded by an insured for indemnity under an insurance contract.

Claims development triangles: Tabulations of claims development data, set out with underwriting years along one axis and calendar years of development along the other.

Claims incurred: Claims arising from events that have occurred, regardless of whether or not they have been reported to the insurer.

Constant FX rates: An increase or decrease in figures between two years after eliminating the effect of foreign exchange rate movements.

Corporate member: A company providing the capital to support the underwriting activity of a syndicate at Lloyd's. Brit's corporate member is Brit UW Limited.

Coverholder: An entity authorised by an insurer to enter into a contract of insurance on its behalf.

D

Deferred acquisition costs or **DAC:** Costs incurred for the acquisition or renewal of insurance policies which are capitalised and amortised over the term of those policies.

Delegated underwriting authority: An authority granted by an underwriter to an agent (known as a coverholder) whereby that agent is entitled to accept, within certain limits, insurance business on behalf of the underwriter. The coverholder has full power to commit the underwriter within the terms of the authority.

E

Earned premium: That proportion of a premium which relates to the portion of a risk which has expired during a given period.

ESOS: The energy savings opportunity scheme or ESOS, is a mandatory government initiative to promote energy efficiency in large businesses.

Excess and Surplus or **E&S:** A generic US regulatory classification referring to insurance coverage not ordinarily written by insurers fully admitted in various states. The E&S lines business is largely unregulated as to rate and form but insurers must be authorised to write such business in a state by the local regulator.

glossary

Excess of loss or **XL:** A type of reinsurance that covers specified losses incurred by the reinsured party in excess of a stated amount (the excess) up to a higher amount of limit, for example US$5m excess of US$1m. Such coverage can operate on a per loss basis or an aggregate basis.
Executive Committee or **EC:** A committee at Brit consisting of the senior management and the Group CEO.

F

FCA: The UK Financial Conduct Authority, established pursuant to the Financial Services Act 2012 and responsible for, among other things, the conduct regulation of all firms authorised and regulated under FSMA and the prudential regulation of firms which are not regulated by the PRA.
First Dollar: An insurance policy written with low excess and deductible, and written in the admitted market.
Funds at Lloyd's or **FAL:** Funds held in trust at Lloyd's to support a Lloyd's underwriter's underwriting activities.

G

Gearing ratio: Calculated as total borrowings (subordinated debt, revolving credit facility cash drawdowns and uncollateralised drawn letters of credit) divided by adjusted net tangible assets and subordinated debt.
Gross written premium or **gross premiums written** or **GWP:** Amounts payable by the insured, including any brokerage or commission deducted by intermediaries but excluding any taxes or duties levied on the premium.

H

Hardening or **hard market:** An insurance market where prevalent prices are high, with more restrictive terms and conditions offered by insurers.
HMRC: Her Majesty's Revenue and Customs.

I

ILS or **Insurance-linked securities:** ILSs are essentially financial instruments which are sold to investors whose value is affected by an insured loss event.
Incurred but not reported or **IBNR:** Claims incurred but not reported, including claims which are incurred but not enough reported (i.e. where the amount of the notification is insufficient).
International Accounting Standards or **IAS:** See 'International Financial Reporting Standards'.
International Financial Reporting Standards or **IFRS:** Accounting and reporting Standards established by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union. UK listed entities have reported on an IFRS basis since 2005.
Invested assets: Financial investments, investment in associated undertakings, cash and cash equivalents and investment related derivatives.
Investment related derivatives: Includes options and interest rate swaps. Excludes currency forwards.
Investment return percentage: Investment return expressed as a percentage of average invested assets, calculated on a month by month basis.

L

Lead underwriter or **lead:** A lead underwriter (usually a specialist in the field of the insurance concerned) is the first underwriter to take a portion of a risk, quote an appropriate rate of premium and set terms and conditions.
Letter of credit or **LoC:** A written undertaking by a financial institution to provide funding if required.
LIBOR: The daily London Interbank Offered Rate set by the British Banking Association.
Line size: The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.
Lloyd's Brussels (LBS): The insurance company of Lloyd's located in Brussels, authorised and regulated by the National Bank of Belgium, which writes all non-life risks from the European Economic Area.
Lloyd's China Platform: The branch of Lloyd's in Shanghai in the People's Republic of China operated through Lloyd's Insurance Company (China) Limited, on which certain Lloyd's syndicates have representation.
Lloyd's of London: The Society of Lloyd's and Corporation of Lloyd's created and governed by the Lloyd's Acts 1871-1982, including the Council of Lloyd's (and its delegates and other persons through whom the Council may act), as the context may require.
London Market: The London insurance market, which includes the Lloyd's market.
Long-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is over three years.

M

Major claims or **Major losses:** Major claims are defined as claims which are initially assessed as having the potential to exceed US$15.0m (net of reinsurance and allowing for reinstatements), incurred from natural or man-made catastrophes, or from large single risk loss events.
Management entity capital requirement: The capital required by an entity for business strategy and regulatory requirements.

N

Net earned premium or **NEP:** The net written premium adjusted by the change in net unearned premium (i.e. the premium for which insurance exposure has yet to be incurred) for a year.
Net tangible assets or **NTA:** The total assets of a company, minus any intangible assets, less all liabilities.
Net written premiums or **NWP:** Gross premiums written during a specified period less outwards reinsurance premiums ceded.
Non-controlling interest:
The equity in a subsidiary not attributable, directly or indirectly, to a parent.

O

Outstanding claims: Claims which have been notified at the reporting date but not settled.
Own risk and solvency assessment or **ORSA:** The name given to the entirety of the processes and procedures employed by an insurer to identify, assess, monitor, manage and report the short and long-term risks it faces or may face and to determine the capital necessary to ensure that the insurer's overall solvency needs are met at all times.

P

PRA: The UK Prudential Regulation Authority established pursuant to the Financial Services Act 2012 and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
Protected cell company or **PCC:** A company that has been separated into legally distinct portions or cells. The revenue streams, assets and liabilities of each cell are kept separate from all other cells. Each cell has its own separate portion of the PCC's overall share capital, allowing shareholders to maintain sole ownership of an entire cell.

Q

Quota share or **QS:** A type of reinsurance which provides that the reassured shall cede to the reinsurer a specified percentage of all the premiums that it receives in respect of a given section or of all of its underwriting account for a given period in return for which the reinsurer is obliged to pay the same percentage of any claims and specified expenses arising on the reinsured business.

glossary

R

Ratio of front office employees to back office employees: Calculated as the average number of front office staff divided by the average number of back office staff employed during the year. Front office employees are defined as underwriters, other underwriting staff, claims staff and direct support staff. The balance of employees are classified as back office.
Realistic Disaster Scenarios or **RDS:** Specific scenarios which the Group uses to test its ability to settle claims arising from certain types of disaster.
Reinsurance: The transfer of some or all of an insurance risk to another insurer. The company transferring the risk is called the 'ceding company' and the company assuming the risk is called the 'assuming company' or the 'reinsurer'.
Representative office: An office established by Brit to conduct marketing and other non-transactional operations overseas.
Reserves: Outstanding claims and claims incurred but not reported.
Reserve releases: The amount of the reserves at the end of the previous period determined as being excess to requirements at the end of the current period.
Retention ratio: The ratio, in percent, of the value of premiums relating to risks written in one year renewed in the following year. The data used is risk adjusted (i.e. it allows for changes to terms and conditions).
Risk adjusted rate change: Change in premium rates during the year expressed as a percentage of opening premium rates. The data reflects internal estimates by Brit's underwriters, based on available year-on-year underlying renewal data after allowing for changes to terms and conditions.
Risk management framework or **RMF:** The Group's own internal framework for risk management.
Running yield: The income return, expressed either as a percentage or a monetary amount, on invested assets.

S

Service companies: Subsidiary companies set up to operate a binding authority on behalf of the Syndicate to write business from non-Lloyd's brokers or direct from policymakers.
Short-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is under three years.
Softening or **soft market:** An insurance market where prevalent prices are low, and terms and conditions offered by insurers are less restrictive.
Solvency capital requirement or **SCR:** The higher of the two capital levels required by Solvency II. The SCR is the prudent amount of assets to be held in excess of liabilities and functions as an early warning mechanism if it is breached. The SCR is calculated using either the standard formula or an approved internal model.
Solvency matched: The matching of the currencies of the Group's liabilities and management entity capital requirements with the currencies of the assets held by the Group.
Solvency II: A combination of several EU Directives that codify and harmonise EU insurance regulation, primarily concerning the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Principal components are Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance and Directive 2012/23/EU on the financial position of insurance undertakings. Solvency II came into force in all EU member states on 1 January 2016.
Strategic asset allocation or **SAA:** The Group's strategic asset allocation defines the overall Group investment strategy and reflects entity-level considerations and governance matters. See 'asset allocation'.
Syndicate: A group of underwriting members of Lloyd's or a single corporate member managed as a unit to underwrite insurance business at Lloyd's to which a particular syndicate number is assigned by or with the authority of Lloyd's of London.

T

Tail: See 'short-tail' and 'long-tail'.
Technical price: The price for the risk which is expected to produce the long-term required return on capital for the Group.
The Company: Brit Limited.
The Group: Brit Limited and its subsidiaries.
The Syndicate: Brit Syndicate 2987.
Total available resources: Sum of the closing adjusted net tangible assets, subordinated debt and letters of credit/contingent funding.
Total invested assets: See 'invested assets'.
Total operating expenses: These represent all expenses incurred by the Group, excluding commission costs.
Treaty: A reinsurance contract pursuant to which the reinsurer is obliged to accept, within agreed limits, all risks underwritten by the reinsured within specified classes of business in a given time period.

U

Ultimate claims: The total forecast claims expected to arise from a policy or class of business. Ultimate claims include those losses paid, those notified and IBNR.

Underlying operating expenses: Calculated as Total operating expenses less project costs and other timing differences. Underlying operating expenses include bonus costs.

Underwriting capacity: The maximum premium income which a Lloyd's syndicate is permitted to underwrite. A capacity figure is assigned to each underwriting year and the relevant premium income is defined as gross written premiums less commission payable.

Underwriting profit: Operating profit generated by our underwriting segments less investment return.

Unearned premium reserve or **UPR:** The portion of premium income written in the calendar year that is attributable to periods after the reporting date. It is accounted for as unearned premiums in the underwriting provisions.

Unrealised gains or **Unrealised losses:**
Gains or losses that are yet to be crystallised in the form of a cash movement from disposals of invested assets.

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