# Brit Limited
## Interim Report 2022

BRIT

writing the future

# Contents



# Key points

## A STRONG UNDERWRITING PERFORMANCE AND SIGNIFICANT GROWTH

- Gross written premiums of $1,990.5m (H1 2021: $1,464.4m), a 35.9% increase (37.6% at constant FX rates).
- Risk adjusted premium rates increases of 12.1% (H1 2021: 10.2%). Premium rate increases since 1 January 2018 of 45.2%.
- Net earned premium[1] of $1,249.0m (H1 2021: $876.0m), an increase of 43.9% at constant FX rates.
- Attritional ratio[1,6] of 51.7%, an improvement of 1.5pps (H1 2021: 50.2%), with most classes showing a strong underlying performance.
- Combined ratio[1,2,6] of 91.6% (H1 2021: 95.5%), including 3.2pps of Ukraine related losses (H1 2021: 1.3pps of COVID-19 related losses), no other major losses (H1 2021: 9.3pps) and reserve movements of 0.7pps (H1 2021: (4.7)pps).
- Return on invested assets[3,6] after fees of $233.4m negative for H1 2022, representing a non-annualised return of -4.3% (H1 2021: positive return of $168.9m/+3.4%). This included $221.8m of unrealised losses.
- Operating loss before the impact of FX and tax of $166.0m (H1 2021: profit of $208.6m).
- Loss after tax of $186.9m (H1 2021: profit of $204.3m).
- RoNTA[6,7] (non-annualised) of -10.2% (H1 2021: +16.1%).
- Balance sheet remains strong: Adjusted net tangible assets[6,8] of $1,534.5m (31 December 2021: $1,740.6m).
- Capital ratio[6,10] improved to 157.1% (31 December 2021: 139.1%). Capital surplus increased by $100.0m to $717.9m (31 December 2021: $617.9m)
- Ki continued its success, maintaining its growth trajectory with $342.9m of GWP recognised in the six months.

*The footnotes referred to above appear on page 4.*

## Brit at a Glance

Brit is a market leader in global specialty insurance and reinsurance, writing a broad range of commercial insurance. Brit is a highly regarded and an influential name in the Lloyd's market and we pride ourselves on our specialist underwriting and claims expertise.

We operate globally via a combination of our own international distribution network that benefits from Lloyd's global licences, and through our broker partners. Our underwriting capabilities are underpinned by a strong financial position, our underwriting expertise and discipline and customer service, enhanced by a data led approach and strong focus on innovation.

We have a strong track record and are passionate about our business, our people and our clients and we have focused on cultivating a franchise that is built on delivering exceptional service. Our culture is centred on achievement and we have established a framework that identifies and rewards strong performance.

Brit is a member of the Fairfax Financial Holdings Limited group of companies (Fairfax). The Fairfax financial result for the six months ended 30 June 2022, published on 28 July 2022, includes the Brit financial result.

## Disclaimer

# Interim Management Report

## Officer statements

I am pleased to report that our strategy has delivered an excellent underwriting performance for the first half of 2022 with a strong combined ratio of 91.6% for the period. This primarily reflected the combination of a healthy attritional ratio, partly offset by the impact of the Ukraine crisis, for which we have established a provision of $39.6m.

Brit has been shocked and horrified by the unfolding events in Ukraine. Brit's thoughts are with its people and our Fairfax colleagues based there. Brit and its staff have also supported The Red Cross Ukraine Crisis Appeal.

I am also pleased that, alongside delivering a strong underwriting result, we were able to grow our premium written to $1,990.5m (2021: $1,464.4m), an increase of 35.9%, or 37.6% at constant rates of exchange. Our core direct and reinsurance divisions contributed to this growth as did Ki in its second year of trading.

The development of Ki continues apace, gaining significant traction in the market. In the period, it wrote $342.9m of premium, an increase of 203.6% at constant FX rates over its first six months of trading.

Market conditions have also contributed to Brit's premium growth. We achieved risk adjusted rate increases of 12.1%, driven by the rising cost of reinsurance and market pressure on liability lines primarily reflecting social inflation. This gives a total overall increase since 1 January 2018 of 45.2%.

As with the wider insurance market, our overall result was impacted by the volatility of financial markets and its impact on our investment return.

During the first half we made a number of important senior appointments, including Bilge Mert as Chief Technology Officer and Kanika Chaganty as Chief Data Officer. These appointments support our technology and data strategy to further advance the business' focus on delivering an innovative, data-driven and technology empowered platform that enables our underwriting and claims teams to thrive. We also made a number of key underwriting and business development appointments.

Our ability to deliver a best-in-class claims service continues to be a core focus. We have supported our clients when they need it most, with innovation at the heart of our claims approach, including launching Brit Direct Pay, our claims payment solution, to our US clients. We were also delighted that Brit Private Client, 18 months since launch, took overall first place in the Highpoint High Net Worth Insurer Survey, showing that our proposition of underwriting, claims and service excellence has been welcomed by the market.

We are proud of Brit's unique culture and we have continued to make progress against our inclusion and diversity roadmap, focusing on our ongoing commitment to attract and retain diverse talent and support a culture of inclusion. We have continued with our wide-ranging educational and awareness programme and have partnered with GT Scholars, a UK based social enterprise to help young people from all backgrounds access career opportunities in insurance and build their employability skills.

Going into the second half of 2022, the industry faces a number of challenges and uncertainties, driven by the volatile geopolitical and economic landscapes, including inflationary pressures and ongoing supply chain issues. Wider challenges also continue to exist such as the potential for increased frequency and magnitude of major loss events, excess capacity, the cost of doing business in the London Market, and increased competition from local carriers in some markets. However, against this backdrop we believe we are well positioned to respond to the opportunities and challenges ahead.

Martin Thompson
**Interim Group Chief Executive Officer**
27 July 2022

In the first half of 2022, Brit delivered a strong underwriting result, offset by the impact of the global financial market volatility on our investment portfolio. Brit's operating result before FX and tax was a loss of $166.0m and our non-annualised return on net tangible assets was -10.2%.

Underwriting profit was $104.9m, with a combined ratio of 91.6%. The attritional ratio for the period was 51.7%, reflecting good underwriting discipline, rigorous risk selection, and healthy compound rate increases.

Major losses of $39.6m contributed 3.2pps (2021: $93.0m/10.6pps) to the combined ratio, and related to provisions established as a result of the shocking events in Ukraine. This follows an assessment of direct exposures within the Terrorism, Casualty Treaty, Marine War, Contingency and Political and Credit Risk classes, along with potential secondary impacts. Brit does not write Aviation business. Given the ongoing nature of the event, neither the duration nor the ultimate outcome can be predicted with any certainty, and we continue to monitor the situation closely.

In the period, as part of our quarterly reserving process we released $6.1m (0.5%) of attritional prior year reserves. These releases were offset by a modest strengthening in respect of historic cat events ($14.7m/1.2%), resulting in an overall increase of $8.6m/0.7% in our prior year reserves. The structure of our reinsurance protections means that any further downside to these events is limited.

Our return on invested assets net of fees was a negative $233.4m or -4.3% (non-annualised), including $221.8m of unrealised losses, with equities, funds and fixed income each contributing to the result. The result reflects the reaction of investment markets to the conflict in Ukraine, with US government bond yields increasing significantly and US and European investment grade credit and high yield spreads widening during the period. It was also the worst first half of the year for developed markets equities in over 50 years.

Our balance sheet remains strong, with adjusted net tangible assets of $1,534.5m (31 December 2021: $1,740.6m). Our management capital surplus increased to $717.9m or 57.1% (31 December 2021: $617.9m/39.1%) over our Group management capital requirement of $1,256.6m (31 December 2021: $1,581.6m), reflecting the impact of the movement in interest rates on our capital requirements, partly offset by the result for the period.

Our investment portfolio remains conservatively positioned, with a large allocation to cash and cash equivalents ($1,071.3m or 20.4%) and fixed income securities ($3,379.3m or 66.3%). Brit's equity allocation stands at $671.6m, or 12.8%. At 30 June 2022, 80.6% of our invested assets were investment grade and the duration of the portfolio had increased to 1.8 years.

We remain cognisant of the potential impacts of inflation, with work being undertaken collaboratively across the Group to quantify and mitigate its impact on profitability. We also continue to focus on ensuring that our underwriting and pricing adequately addresses inflationary trends and we continue to review the key drivers of claim settlement costs and frequency by class of business. Our reserves continue to be set at a margin above the actuarial estimate which is in turn set on a conservative best estimate basis incorporating our current view of social and economic inflation.

We are making good progress with our project to implement IFRS 17, the new accounting standard for insurance contracts applicable from 1 January 2023. In the first half of 2022 the Company's efforts focused on the finalisation and documentation of key accounting policies and significant estimates, and the implementation and testing of information technology systems support the production of figures on an IFRS 17 basis. The company is currently refining its opening consolidated IFRS 17 balance sheet as at 1 January 2022 and continues to evaluate the effect that the adoption of IFRS 17 will have on its consolidated financial statements.

We have continued to experience strong underwriting conditions and favourable market developments in the first half of 2022. However, the world faces ongoing volatility, challenges arising from inflation, and uncertainty surrounding events in Ukraine. The insurance market also continues to evolve. However, we believe that our strategy, discipline and financial strength position us well to take advantage of opportunities as they arise.

Gavin Wilkinson
**Group Chief Financial Officer**
27 July 2022

## Performance summary and key performance indicators

Brit's result reflects strong premium growth and a good attritional performance, partly offset by the impact of the Ukraine crisis, movement in 2021 major losses (Hurricane Ida and Texas winter storms) and negative return on invested assets.

| | 6 months ended 30 June 2022 $m | 6 months ended 30 June 2021 $m | Year ended 31 December 2021 $m |
|---|---|---|---|
| **Performance summary** | | | |
| Gross written premium | **1,990.5** | 1,464.4 | 3,238.3 |
| Net written premium | **1,416.6** | 864.4 | 1,998.3 |
| Net earned premium[1] | **1,249.0** | 876.0 | 1,754.3 |
| Underwriting result[2,6] | 104.9 | 39.6 | 90.6 |
| Return on invested assets[3,6] | (233.4) | 168.9 | 171.9 |
| Gain on deconsolidation of subsidiaries | - | 19.8 | 19.8 |
| Gain on business combination | - | - | 6.1 |
| Corporate expenses | (33.8) | (22.4) | (44.7) |
| Finance costs | (10.9) | (8.8) | (18.3) |
| Other items[4] | 7.2 | 11.5 | 21.7 |
| Profit/(loss) on ordinary activities before tax and FX | (166.0) | 208.6 | 247.1 |
| FX movements[5] | (5.6) | (11.3) | (19.8) |
| Profit/(loss) on ordinary activities before tax | (171.6) | 197.3 | 227.3 |
| Tax | (15.3) | 7.0 | 9.6 |
| Profit/(loss) for the year after tax | (186.9) | 204.3 | 236.9 |
| **Key performance indicators** | | | |
| Return on net tangible assets (RoNTA)[6,7] | **(10.2)%** | 16.1% | 19.4% |
| Combined ratio[1,2,6] | **91.6%** | 95.5% | 95.7% |
| Return on invested assets[6,9] | **(4.3)%** | 3.4% | 3.3% |
| Capital ratio[6,10] | 157.1% | 148.5% | 139.1% |

1 Includes the effect of foreign exchange on non-monetary items. 30 June 2021 figures have been represented on this basis.
2 Include FX movements on non-monetary items, the impact of gains/losses on other financial liabilities but exclude any adjustment for non-controlling interests. 30 June 2021 figures have been represented on this basis.
3 Inclusive of return on investment related derivatives, return on associates and after deducting investment management expenses.
4 Other items include the gains or losses on the movement in fair value of Fairfax shares.
5 Includes the return on FX related derivatives ($(8.1)m).
6 Reconciliations of our KPIs and alternative performance measures to the financial statements are set out on pages 40 to 43.
7 Since 31 December 2021, return on net tangible assets (RoNTA) has shown the return generated by our operations for the owners of Brit Limited before foreign exchange movements, compared to the adjusted net tangible assets (see footnote 8) deployed in our business attributable to them. The impact of the Group's defined benefit pension schemes are excluded from the calculation. The 30 June 2021 figure is represented on this basis.
8 Adjusted net tangible assets are defined as total equity, less intangible assets net of the deferred tax liability on those intangible assets, less non-controlling interest.
9 The 30 June figures are non-annualised.
10 The capital ratio is calculated as total available resources divided by management entity capital requirements. The management entity capital requirement is the capital required for business strategy and regulatory requirements.

## Underwriting

**Overview**

Our underwriting result for the period was a profit of $104.9m (30 June 2021: profit of $39.6m; 31 December 2021: profit of $90.6m) and our combined ratio was 91.6% (30 June 2021: 95.5%; 31 December 2021: 95.7%).

The premiums, claims, fee income and expenses components of this result are examined below.

A reconciliation of our KPIs and alternative performance measures to the financial statements are set out on pages 40 to 43. At 31 December 2021, we simplified our approach to calculating a number of our ratios, and have re-presented the 30 June 2021 figures on this basis. Underwriting ratios (combined ratio, claims ratios, commission and expense ratios) are now presented after FX movements on non-monetary items, after the impact of gains/losses on other financial liabilities and before any adjustment for non-controlling interests. The calculations of these ratios are set out on page 42.

**Premiums**

| | 6 months ended 30 June 2022 $m | 6 months ended 30 June 2021 (Restated)[2] $m | Increase % | Increase at constant FX rates % |
|---|---|---|---|---|
| London Direct underwriting | **1,005.3** | **852.4** | 17.9 | 20.3 |
| London Reinsurance underwriting | **560.6** | **438.8** | 27.8 | 28.8 |
| Discontinued underwriting | **(2.8)** | **8.0** | (135.0) | (122.1) |
| Other underwriting[1] | **84.5** | **51.0** | 65.7 | 68.8 |
| | **1,647.6** | 1,350.2 | 22.0 | 23.5 |
| Ki | 342.9 | 114.2 | 200.3 | 203.6 |
| **Group** | **1,990.5** | 1,464.4 | 35.9 | 37.6 |

1 'Other' comprises premium written by Brit Reinsurance (Bermuda) Limited, the Group's special purpose vehicles (including premium attributable to third party underwriting capital providers) and Brit's share of Syndicate 2988, less adjustments in respect of intra-group trading.
2 The 2022 analysis has been re-analysed to reflect the underwriting class monitoring structure introduced in 2021.

2022 continues to deliver strong rate increases, driven by catastrophe losses experienced by the market, the rising cost of reinsurance and market pressure on liability lines primarily reflecting social inflation. In the 6 months ended 30 June 2022, we achieved a risk adjusted rate change (RARC) of 12.1% (30 June 2021: 10.2%; 31 December 2021: 12.9%), giving total overall RARC since 1 January 2018 of 45.2%.

In the period we continued to grow our business in this increasingly favourable rating environment. Gross written premium (GWP) for the six months ended 30 June 2022 increased by 35.9% to $1,990.5m (30 June 2021: $1,464.4m; 31 December 2021: $3,238.3m). At constant exchange rates the increase was 37.6%.

The key drivers of the increase between the six months ended 30 June 2021 and 30 June 2022 were:

- Current year premiums increased by $521.3m, reflecting Ki (increased by $228.7m to $342.9m) and targeted growth in our London Direct (increased by $152.9m to $1,005.3m) and London Reinsurance (increased by $121.8m to $560.6m) portfolios.
- Prior year premium development was $18.3m higher than in H1 2021.
- An adverse exchange rate movement effect of $17.6m, reflecting the movements during 2022 of the US dollar against a number of currencies in which the Group writes business.

The Group retention rate for the period was 82.6% (30 June 2021: 79.1%; 31 December 2021: 83.7%).

**Outwards reinsurance**

Reinsurance expenditure in the six months ended 30 June 2022 was $573.9m or 28.8% of GWP (30 June 2021: $600.0m/41.0%; 31 December 2021: $1,240.0m/38.3%).

The reduction reflects the impact of a four year excess of loss contact with a premium of $93.0m entered into in 2021. The full four year premium is reflected in the 2021 ceded amount , thereby having a distortional effect on that figure and on net written premium. This ceded premium is being earned over the four year period of cover.

In 2022, there has been increased reinsurance expenditure where adjustable excess of loss contracts and proportional reinsurance treaties have been impacted by premium growth. We have also increased our expenditure on Terror XL protections reflecting the challenging reinsurance marketplace following the invasion of Ukraine, and Ki has purchased additional quota share contracts and catastrophe covers.

**Net earned premium**

Net earned premium (NEP) increased by 42.6% to $1,249.0m (30 June 2021: $876.0m; 31 December 2021: $1,754.3m). At constant exchange rates, the movement was an increase of 43.9%. This was predominantly driven by premium growth in Ki, and in our London Direct and London Reinsurance portfolios as we continue to pursue growth in our most profitable segments.

**Claims**

The claims ratio was 55.6% (30 June 2021: 56.1%; 31 December 2021: 58.4%).

| **Claims ratio** | **6 months ended 30 June 2022 %** | **6 months ended 30 June 2021 %** | **Year ended 31 December 2021 %** |
|---|---|---|---|
| Attritional claims ratio | 51.7 | 50.2 | 47.7 |
| Major loss ratio | 3.2 | 10.6 | 15.5 |
| Reserve release ratio | 0.7 | (4.7) | (4.8) |
| Claims ratio | 55.6 | 56.1 | 58.4 |

The attritional claims ratio for the period increased by 1.6ps to 51.7% (30 June 2021: 50.2%; 31 December 2021: 47.7%). Of this increase, 1.0pps relates to the inclusion of internally borne claims costs historically reflected within expenses.

Major losses totalled $39.6m or 3.2 claims ratio percentage points (30 June 2021: $93.0m/10.6pps; 31 December 2021: $324.4m/15.5pps), all of which relates to the Russian invasion of Ukraine. This provision has been established following a review of our exposures and relates primarily to the Political and Credit Risk and the War and Terrorism classes. Given the ongoing nature of the event, it will ‘earn’ over a prolonged period and we continue to monitor matters closely.

In the period, as part of our quarterly reserving process we released $6.1m (0.5%) of attritional prior year reserves. These releases were offset by a modest strengthening in respect of historic cat events ($14.7m/1.2%), resulting in an overall increase of $8.6m/0.7pps in our prior year reserves. The structure of our reinsurance protections means that any further downside to these events is limited.

**Underwriting expenses**

The expense ratio was 36.0% (30 June 2021: 39.4%; 31 December 2021: 37.3%). This comprised commission costs, underwriting related operating expenses and the effect of other underwriting income.

Commission costs for the period were $298.0m and the commission expense ratio improved by 1.9pps to 23.9% (30 June 2021: $225.8m/25.8%; 31 December 2021: $528.4m/25.2%), reflecting our continued focus to reduce brokerage costs in the market.

The operating expense ratio was 12.1% (30 June 2021: 13.6%; 31 December 2021: 12.1%). This comprised the following:

- Underwriting related operating expenses for the period were $161.2m and contributed 12.9pps to the operating expense ratio (30 June 2021: $144.5m/16.5pps; 31 December 2021: $312.8m/14.9pps). The reduction in the ratio reflects an increase in net earned premium, and the reallocation for 2022 of internally borne claims costs from expenses to claims costs. The increase in expenses is discussed below.
- Underwriting related fee income totalled $15.4m, reducing the expense ratio by 1.2pps (30 June 2021: $25.2m/2.9pps; 31 December 2021: $56.6m/2.7pps). The reduction is primarily the result of a decrease in third party fee income, partly reflecting the sale of Scion Underwriting Services Inc. in June 2021.
- Losses on other financial liabilities were $5.3m, increasing the operating expense ratio by 0.4pps (30 June 2021: losses of $0.1m/0.0pps; 31 December 2021: gains of $2.5m/0.1pps). These amounts are included in the operating expense ratio as they represent the underwriting result in Brit's consolidated income statement attributable to third party capital providers.

## Expenses

Total operating expenses during the six months ended 30 June 2022 increased by 16.8% to $195.0m (30 June 2021: $166.9m; 31 December 2021: $357.5m). At constant rates of exchange, the increase was 22.6%, reflecting that the majority of our expense base in Sterling. The main contributors to this increase were staff costs, including the expansion of Ki and other headcount growth, increased IT expenditure, accommodation and regulatory levies.

At 30 June 2022, group headcount was 913 (30 June 2021: 785; 31 December 2021: 854). The increase is primarily due to the launch of Ki, targeted underwriting expansion in favourable market conditions, the related growth of support functions, and the acquisition in October 2021 of Camargue Underwriting Managers Proprietary Limited. These were partly offset by reductions resulting from the withdrawal from certain classes of business.

## Return on invested assets

The aggregated return on invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings), net of expenses, in H1 2022 was a negative $233.4m or -4.3% (30 June 2021: positive return of $168.9m/3.4%; 31 December 2021: positive return of $171.9m/3.3%).

This was driven by turbulent market condition which impact most asset classes, including equities ($56.9m negative return), funds ($49.7m negative return) and fixed income ($122.9m negative return).

Over the six months, US government bond two-year yield rose from 0.73% to 2.96%, the five-year yield rose from 1.26% to 3.04% and the ten-year yield from 1.51% to 3.02%. Investment grade spreads in the US widened from 0.49% to 1.11% and in Europe from 0.78% to 2.00%, while high yield spreads in the US widened from 2.83% to 5.69% and in Europe widened from 3.12% to 6.43%. It was also the worst first half of the year for developed markets equities in over 50 years.

The Group's return on investments is analysed in the table below:

| **Return on invested assets** | **6 months ended 30 June 2022 $m** | **6 months ended 30 June 2021 $m** | **Year ended 31 December 2021 $m** |
|---|---|---|---|
| Income | 30.0 | 30.7 | 58.4 |
| Realised (losses)/gains | (36.3) | 14.0 | 59.4 |
| Unrealised (losses)/gains | (221.8) | 128.7 | 63.6 |
| Return before fees | (228.1) | 173.4 | 181.4 |
| Investment management expenses | (6.9) | (7.1) | (14.2) |
| Return net of fees | (235.0) | 166.3 | 167.2 |
| Investment related derivative return | 0.8 | 1.7 | 3.0 |
| Return on associated undertakings | 0.8 | 0.9 | 1.7 |
| Total return | (233.4) | 168.9 | 171.9 |
| Total return[1] | (4.3)%[1] | 3.4%[1] | 3.3% |

1 30 June figures are non-annualised.

Invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings) at 30 June 2022 totalled $ 5,249.2m (30 June 2021: $5,101.6m; 31 December 2021: $5,546.2m). The Group's asset allocation, on a look-through basis, is set out in the table below:

| **Invested assets** | **30 June 2022 $m** | **30 June 2021 $m** | **31 December 2021 $m** |
|---|---|---|---|
| Government debt securities | 2,440.3 | 1,547.7 | 2,254.4 |
| Corporate debt securities | 1,001.1 | 1,677.1 | 918.1 |
| Structured products | 20.2 | 20.6 | 21.3 |
| Loan instruments | 37.9 | 39.2 | 41.3 |
| Equity securities | 671.6 | 800.0 | 756.7 |
| Cash and cash equivalents | 1,071.3 | 1,007.3 | 1,549.3 |
| Derivatives (net) (investment related) | 6.4 | 9.7 | 5.1 |
| Total invested assets | 5,249.2 | 5,101.6 | 5,546.2 |

The portfolio remains consistently positioned, with a large allocation to cash and cash equivalents ($1,071.3m/20.4%) and fixed income securities ($3,479.3m/66.3%). Brit's equity allocation at 30 June 2022 was $671.6m/12.8%.
At 30 June 2022, 80.6% of our invested assets were investment grade quality (30 June 2021: 78.1%; 31 December 2021: 83.2%) and the duration of the portfolio has increased to 1.8 years (30 June 2021: 1.6 years; 31 December 2021: 1.5 years).

## Gain on deconsolidation of subsidiaries

In 2022 there have been no divestitures. In 2021, the gain on deconsolidation of subsidiaries, both at 30 June and 31 December was $19.8m, following the sale of Commonwealth Insurance Company of America ($3.7m gain) and Scion Underwriting Services Inc. ($18.3m gain), and the deconsolidation of the North America Property Insurance Series 2017 Account A-3 ($2.2m loss).

## Foreign exchange

Brit seeks 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. This can import some exchange rate related volatility into the income statement.

We experienced a total foreign exchange loss of $5.6m in the six months ended 30 June 2022 (30 June 2021: loss of $11.3m; 31 December 2021: loss of $19.8m), reflecting the movement of the US dollar against other currencies in which we trade and hold assets, and the impact of FX related derivatives purchased by the Group.

| **Foreign exchange gains and (losses)** | **30 June 2022 $m** | **30 June 2021 $m** | **31 December 2021 $m** |
|---|---|---|---|
| Net foreign exchange gains/(losses) | **2.5** | 5.8 | (1.1) |
| Losses on derivative contracts - FX related instruments | **(8.1)** | (17.1) | (18.7) |
| **Total** | **(5.6)** | (11.3) | (19.8) |

## Tax

Our tax on ordinary activities for the six months to 30 June 2022 resulted in a tax charge of $15.3m (30 June 2021: credit of $7.0m; 31 December 2021: credit of $9.6m), based on a group loss before tax of $171.6m (30 June 2021: profit of $197.3m; 31 December 2021: profit of $227.3m). This charged comprised a current tax charge of $6.5m and a deferred tax charge of $8.8m.

The Group is liable to taxes on its corporate income in a number of jurisdictions where its companies carry on business. 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.

## Balance sheet and capital strength

Brit Syndicates 2987 and 2988, and Ki Syndicate 1618's effective rating from trading through Lloyd's is A+ (Strong) from Standard and Poor's, AA- (Very Strong) from Fitch Ratings, A (Excellent) from A.M. Best and AA- from Kroll Bond Rating Agency.

We continue to maintain a strong financial position, a factor critical to the long-term success of an insurance business.

Adjusted net tangible assets at 30 June 2022 totalled $1,534.5m (30 June 2021: $1,654.3m; 31 December 2021: $1,740.6m) and our group total capital resources at 30 June 2022 totalled $1,974.5m (30 June 2021: $2,108.3m; 31 December 2021: $2,199.5m). The decrease reflects the result for the period.

At 30 June 2022, we had a management capital surplus of $717.9m or 57.1% (30 June 2021: $688.9m/48.5%; 31 December 2021: $617.9m/39.1%) over our Group management capital requirement of $1,256.6m (30 June 2021: $1,419.4m; 31 December 2021: $1,581.6m). During the period, the decrease in requirements primarily reflected the movement in interest rates.

Brit has in place a $450m revolving credit facility (RCF), expiring on 31 December 2025. At 30 June 2022, drawings on the RCF were $nil of cash and a $130m letter of credit (LoC), $25.0m of which was collateralised (30 June 2021: $60.0m cash and $130.0m uncollateralised LoC; 31 December 2021: $45.0m cash and $130.0m uncollateralised LoC). At the date of this report, drawings on the RCF were unchanged.

In addition, we have in issue £135.0m of 3.6757% subordinated debt with a carrying value of £135.0m/$164.0m (30 June 2021: £135.0m/$186.5m; 31 December 2021: £135.0m/$182.9m). This instrument, which is listed on the London Stock Exchange, was issued in December 2005, matures in 2030.
At 30 June 2022, Brit's gearing ratio was 17.4% (30 June 2021: 21.4%; 31 December 2021: 20.0%).

## Dividends

On 27 April 2022 Brit paid a dividend of $18.7m (2021: nil) to its minority shareholder, OMERS Administration Corporation.

## Outlook

The industry faces a number of challenges, including the pressures of general and social inflation, economic uncertainty and recessionary trends, uncertainty surrounding the Ukraine conflict, the potential of increased frequency and magnitude of major loss events, excess capacity, the cost of doing business in the London Market, and increased competition from local carriers in some markets. While significant progress has been made against COVID-19, time will tell whether it brings further challenges as new stains emerge and the effectiveness of vaccines reduces.

However, against this backdrop we have continued our strong momentum into 2022 with rate increases over 12%, compounding on previous years to result in very attractive pricing conditions in many areas, and we continue to deliver a strong attritional claims ratio. In this environment, our clear strategy of embracing data driven disciplined underwriting and rigorous risk selection, coupled with innovative capital management and underwriting solutions, gives us continued optimism and positions us well to respond to the opportunities and challenges ahead.

## Risk management and principal risks

**Risk Management Framework**

Brit delivers shareholder value by actively seeking and accepting risk within agreed limits. Risk management within 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 is fully detailed in our 2021 Annual Report (pages 38 to 43).

**Principal risks**

Our principal risks and uncertainties in the current environment are:

| Risk category | Risk | Description of risk |
|---|---|---|
| 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. |
| | Reserving | Prior year reserves are insufficient to cover claims (net of reinsurance). |
| Investment | Investment market risk | Invested assets adversely affected by changes in economic variables, such as interest rates, bond yields, equity returns, credit spreads and credit ratings. |
| 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. |

**COVID-19 risk management**

In 2022 COVID-19 has had very limited impact on the Group. The Brit Group has continued to manage the risks associated with COVID-19 in line with the requirements of its risk management policies, focusing on potential impacts on operational risk, insurance risk, investment and markets risk, credit risk and solvency and liquidity risk.

### 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 identified risks such as inflation and geopolitical risks. These risks have are being managed throughout their development and are monitored as part of the usual risk management process.

### Inflation risk

We remain cognisant of the impact of inflation on the underlying portfolio, with work being undertaken collaboratively across Underwriting, Actuarial, Risk and Claims to quantify the impact, to mitigate the impact of inflation on profitability and to ensure it is appropriately considered in our ongoing business and 2023 business planning. We also continue to focus on ensuring that our pricing models adequately address current inflationary trends. We continue to review the key drivers of claim settlement costs and frequency by class of business, which in turn will further inform any required recalibration of our pricing models. Our reserves continue to be set at a margin above the actuarial estimate which is in turn set on a conservative best estimate basis incorporating our current view of social and economic inflation.

### Russian invasion of Ukraine – associated risk

The Russia-Ukraine conflict arising from the Russian invasion of Ukraine is a cause for uncertainty. This uncertainty may have an impact on insurance claims, and volatility in financial markets, potentially impacting various subsidiary undertakings within the Group which could in turn impact the future income from those entities. There may also be a potential impact on the operational costs of the Group attributable to the downstream effects of high inflation and commodity prices. The Group continues to monitor developments closely.

Brit has analysed its potential exposures across its (re)insurance portfolio as well as the wider financial, operational and personal challenges brought about by the conflict. We have direct exposures within the Terrorism, Casualty Treaty, Marine War, Contingency and Political and Credit Risk classes, along with secondary impacts across the Cyber class and potential recessionary impacts.

### Climate change related financial risks

Climate change has been recognised as an emerging risk in our 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.

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. Brit 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.

## Ownership

Brit Limited's ultimate parent undertaking is Fairfax Financial Holdings Limited, a company registered in Canada. Fairfax Financial Holdings Limited is quoted on the Toronto Stock Exchange. As at the date of this report, the Fairfax Group owned 86.2% of Brit's ordinary shares while the remaining 13.8% was owned by OMERS Administration Corporation.

## Auditor review

This interim financial report has not been audited or reviewed by the Company's independent auditor.

## Responsibility statement of the Directors in respect of the Interim Report

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements have been prepared in accordance with UK-adopted IAS 34 'Interim Financial Reporting'; and
- The interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year.

Martin Thompson
**Interim Group Chief Executive Officer**
27 July 2022

## Condensed Consolidated Income Statement

For 6 months ended 30 June 2022

| | Note | **Unaudited 6 months ended 30 June 2022 $m** | Unaudited 6 months ended 30 June 2021 $m | Audited Year ended 31 December 2021 $m |
|---|---|---|---|---|
| Revenue | | | | |
| Gross premiums written | 5 | **1,990.5** | 1,464.4 | 3,238.3 |
| Less premiums ceded to reinsurers | 5 | **(573.9)** | (600.0) | (1,240.0) |
| Premiums written, net of reinsurance | | **1,416.6** | 864.4 | 1,998.3 |
| | | | | |
| Gross amount of change in provision for unearned premiums | | **(408.9)** | (289.3) | (370.4) |
| Reinsurers' share of change in provision for unearned premiums | | **241.3** | 300.9 | 126.4 |
| Net change in provision for unearned premiums | | **(167.6)** | 11.6 | (244.0) |
| Earned premiums, net of reinsurance | 5 | **1,249.0** | 876.0 | 1,754.3 |
| | | | | |
| Investment return | 6 | **(235.0)** | 166.3 | 167.2 |
| Return on derivative contracts | 7 | **(7.3)** | (15.4) | (15.7) |
| Gains on deconsolidation of subsidiaries | 8 | **-** | 19.8 | 19.8 |
| Gain on business combination | 20 | **-** | - | 6.1 |
| Other income | 9 | **22.6** | 36.7 | 78.3 |
| (Losses)/gains on other financial liabilities | 9 | **(5.3)** | (0.1) | 2.5 |
| Net foreign exchange gains | 10 | **2.5** | 5.8 | - |
| **Total revenue** | | **1,026.5** | 1,089.1 | 2,012.5 |
| | | | | |
| **Expenses** | | | | |
| **Claims incurred:** | | | | |
| **Claims paid:** | | | | |
| Gross amount | | **(722.1)** | (692.6) | (1,321.5) |
| Reinsurers' share | | **202.6** | 230.6 | 437.6 |
| **Claims paid, net of reinsurance** | | **(519.5)** | (462.0) | (883.9) |
| | | | | |
| **Change in the provision for claims:** | | | | |
| Gross amount | | **(249.7)** | (6.4) | (402.7) |
| Reinsurers' share | | **74.2** | (22.8) | 405.0 |
| **Net change in the provision for claims** | | **(175.5)** | (29.2) | 2.3 |
| | | | | |
| Claims incurred, net of reinsurance | 5 | **(695.0)** | (491.2) | (881.6) |
| Acquisition costs | 11 | **(396.8)** | (302.8) | (708.3) |
| Other operating expenses | 11 | **(96.2)** | (89.9) | (177.6) |
| Net foreign exchange losses | 10 | **-** | - | (1.1) |
| **Total expenses excluding finance costs** | | **(1,188.0)** | (883.9) | (1,768.6) |
| | | | | |
| **Operating (loss)/profit** | | **(161.5)** | 205.2 | 243.9 |
| | | | | |
| Finance costs | | **(10.9)** | (8.8) | (18.3) |
| Share of profit after tax of associated undertakings | | **0.8** | 0.9 | 1.7 |
| **(Loss)/profit on ordinary activities before tax** | | **(171.6)** | 197.3 | 227.3 |
| Tax (expense)/credit | 12(a) | **(15.3)** | 7.0 | 9.6 |
| **(Loss)/profit for the period** | | **(186.9)** | 204.3 | 236.9 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

## Condensed Consolidated Statement of Comprehensive Income

For 6 months ended 30 June 2022

| | Note | **Unaudited 6 months ended 30 June 2022 $m** | Unaudited 6 months ended 30 June 2021 $m | Audited Year ended 31 December 2021 $m |
|---|---|---|---|---|
| **(Loss)/profit attributable to:** | | | | |
| Owners of the parent | | **(180.8)** | 207.3 | 248.5 |
| Non-controlling interests | | **(6.1)** | (3.0) | (11.6) |
| **(Loss)/profit for the period** | | **(186.9)** | 204.3 | 236.9 |
| **Other comprehensive income** | | | | |
| **Items not to be reclassified to profit or loss in subsequent periods:** | | | | |
| Actuarial gain on defined benefit pension scheme | | **-** | - | 18.7 |
| Deferred tax charge on actuarial gains on defined benefit pension scheme | 12(b) | **-** | - | (6.5) |
| **Items that may be reclassified to profit or loss in subsequent periods:** | | | | |
| Change in unrealised foreign currency translation (losses) /gains on foreign operations | | **(16.4)** | 2.7 | (1.1) |
| **Total other comprehensive income** | | **(16.4)** | 2.7 | 11.1 |
| **Total comprehensive income recognised** | | **(203.3)** | 207.0 | 248.0 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent | | **(197.2)** | 210.0 | 259.6 |
| Non-controlling interests | | **(6.1)** | (3.0) | (11.6) |
| **Total comprehensive income recognised** | | **(203.3)** | 207.0 | 248.0 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

# Condensed Consolidated Statement of Financial Position

As at 30 June 2022

| | Note | **Unaudited 30 June 2022 $m** | Unaudited 30 June 2021 $m | Audited 31 December 2021 $m |
|---|---|---|---|---|
| **Assets** | | | | |
| Intangible assets | | **199.9** | 179.8 | 205.3 |
| Property, plant and equipment | | **49.3** | 60.2 | 57.6 |
| Deferred acquisition costs | | **387.6** | 301.4 | 321.8 |
| Investment in associated undertakings | | **14.7** | 21.5 | 15.0 |
| Reinsurance contracts | 13 | **2,573.4** | 2,082.3 | 2,291.2 |
| Employee benefits | | **104.8** | 49.8 | 113.8 |
| Deferred taxation | | **40.7** | 62.8 | 47.9 |
| Current taxation | | **6.9** | 5.1 | 10.6 |
| Financial investments | 14 | **4,173.9** | 4,084.6 | 4,015.0 |
| Derivative contracts | 15 | **22.0** | 22.6 | 15.1 |
| Insurance and other receivables | | **1,893.2** | 1,615.0 | 1,615.3 |
| Cash and cash equivalents | | **1,055.0** | 987.8 | 1,510.3 |
| **Total assets** | | **10,521.4** | 9,472.9 | 10,218.9 |
| | | | | |
| **Liabilities and Equity** | | | | |
| | | | | |
| **Liabilities** | | | | |
| Insurance contracts | 13 | **7,154.7** | 6,116.6 | 6,532.9 |
| Borrowings | | **164.0** | 246.5 | 227.9 |
| Other financial liabilities | | **100.8** | 84.4 | 95.8 |
| Provisions | | **2.2** | 2.3 | 2.4 |
| Deferred taxation | | **12.8** | 9.0 | 12.9 |
| Current taxation | | **3.5** | 3.3 | 3.8 |
| Derivative contracts | 15 | **14.2** | 15.2 | 12.5 |
| Insurance and other payables | | **1,140.9** | 1,045.7 | 1,184.1 |
| **Total liabilities** | | **8,593.1** | 7,523.0 | 8,072.3 |
| | | | | |
| **Equity** | | | | |
| Called up share capital | 16 | **10.0** | 8.6 | 10.0 |
| Share premium | | **1,432.6** | 1,027.9 | 1,432.6 |
| Capital redemption reserve | | **1.0** | 1.0 | 1.0 |
| Capital contribution reserve | | **32.2** | - | 28.5 |
| Foreign currency translation reserve | | **(101.6)** | (81.4) | (85.2) |
| Retained earnings | | **326.7** | 847.1 | 525.5 |
| **Total equity attributable to owners of the parent** | | **1,700.9** | 1,803.2 | 1,912.4 |
| Non-controlling interests | | **227.4** | 146.7 | 234.2 |
| **Total liabilities and equity** | | **10,521.4** | 9,472.9 | 10,218.9 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

These financial statements were approved by the Board of Directors on 27 July 2022 and were signed on its behalf by:

Martin Thompson
**Interim Group Chief Executive Officer**

Gavin Wilkinson
**Group Chief Financial Officer**

Registered number: 08821629

## Condensed Consolidated Statement of Cash Flows

For 6 months ended 30 June 2022

| | Note | **Unaudited 6 months ended 30 June 2022 $m** | Unaudited 6 months ended 30 June 2021 $m | Audited Year ended 31 December 2021 $m |
|---|---|---|---|---|
| **Cash generated from operations** | | | | |
| Cash flows (used in)/generated from operating activities | 18 | **(398.5)** | 217.7 | 622.5 |
| Tax paid | | **(3.5)** | (0.3) | (8.1) |
| Interest received | | **32.0** | 28.2 | 57.9 |
| Dividends received | | **4.2** | 5.5 | 10.1 |
| Purchase of shares for share-based payment schemes | | **(0.1)** | (16.9) | (16.9) |
| **Net cash (outflows)/inflows from operating activities** | | **(365.9)** | 234.2 | 665.5 |
| **Cash flows from investing activities** | | | | |
| Purchase of intangible assets | | **(3.6)** | (3.7) | (12.8) |
| Purchase of property, plant and equipment | | **(1.4)** | (4.6) | (1.7) |
| Disposal of subsidiary undertakings, net of cash disposed | | **-** | 31.8 | 31.8 |
| Acquisition of subsidiary undertaking, net of cash acquired | | **-** | - | (6.4) |
| Dividends from associated undertakings | | **1.1** | - | 0.7 |
| **Net cash (outflows)/inflows from investing activities** | | **(3.9)** | 23.5 | 11.6 |
| **Cash flows from financing activities** | | | | |
| Proceeds from issue of shares | | **-** | - | 406.1 |
| Proceeds from capital contribution | | **3.7** | - | - |
| Repayment on revolving credit facility | | **(45.0)** | (70.0) | (85.0) |
| Interest paid | | **(6.2)** | (4.3) | (9.7) |
| Transactions with non-controlling interests | | **-** | 28.0 | 124.0 |
| Dividends paid to owners of the parent | | **(18.7)** | - | (375.0) |
| **Net cash (outflows)/inflows from financing activities** | | **(66.2)** | (46.3) | 60.4 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(436.0)** | 211.4 | 737.5 |
| Cash and cash equivalents at beginning of the period | | **1,510.3** | 775.7 | 775.7 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **(19.3)** | 0.7 | (2.9) |
| **Cash and cash equivalents at the end of the period** | | **1,055.0** | 987.8 | 1,510.3 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

## Condensed Consolidated Statement of Changes in Equity

For 6 months ended 30 June 2022

| | Note | Called up share capital $m | Share premium $m | Capital redemption reserve $m | Capital contribution reserve $m | Foreign currency translation reserve $m | Retained earnings $m | Total attributable to owners of the parent $m | Non-controlling interests $m | Total equity $m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | | **10.0** | **1,432.6** | **1.0** | **28.5** | **(85.2)** | **525.5** | **1,912.4** | **234.2** | **2,146.6** |
| Total comprehensive income recognised | | - | - | - | - | (16.4) | (180.8) | (197.2) | (6.1) | (203.3) |
| Reallocation of forfeited rollover shares to LTIP schemes | | - | - | - | - | - | - | - | - | - |
| Issuance of share capital | 16 | - | - | - | - | - | - | - | - | - |
| Dividend | 17 | - | - | - | - | - | (18.7) | (18.7) | - | (18.7) |
| Contribution from parent in relation to the acquisition of the Riverstone pension plan | | - | - | - | 3.7 | - | - | 3.7 | - | 3.7 |
| Transactions with non-controlling interests | | - | - | - | - | - | 0.7 | 0.7 | (0.7) | - |
| **At 30 June 2022** | | **10.0** | **1,432.6** | **1.0** | **32.2** | **(101.6)** | **326.7** | **1,700.9** | **227.4** | **1,928.3** |

For 6 months ended 30 June 2021

| | Called up share capital $m | Share premium $m | Capital redemption reserve $m | Capital contribution reserve $m | Foreign currency translation reserve $m | Retained earnings $m | Total attributable to owner of the parent | Non-controlling interests | Total Equity $m |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2021** | **8.6** | **1,027.9** | **1.0** | **-** | **(84.1)** | **639.2** | **1,592.6** | **121.7** | **1,714.3** |
| Total comprehensive income recognised | - | - | - | - | 2.7 | 207.3 | 210.0 | (3.0) | 207.0 |
| Reallocation of forfeited rollover shares to LTIP schemes | - | - | - | - | - | 0.6 | 0.6 | - | 0.6 |
| Transactions with non-controlling interests | - | - | - | - | - | - | - | 28.0 | 28.0 |
| **At 30 June 2021** | **8.6** | **1,027.9** | **1.0** | **-** | **(81.4)** | **847.1** | **1,803.2** | **146.7** | **1,949.9** |

## Condensed Consolidated Statement of Changes in Equity (continued)

For year ended 31 December 2021

| | Note | Called up share capital $m | Share premium $m | Capital redemption reserve $m | Capital contribution reserve $m | Foreign currency translation reserve $m | Retained earnings $m | Total attributable to owners of the parent $m | Non-controlling interests $m | Total equity $m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2021** | | **8.6** | **1,027.9** | **1.0** | **-** | **(84.1)** | **639.2** | **1,592.6** | **121.7** | **1,714.3** |
| Total comprehensive income recognised | | **-** | **-** | **-** | **-** | **(1.1)** | **260.7** | **259.6** | **(11.6)** | **248.0** |
| Reallocation of forfeited rollover shares to LTIP schemes | | **-** | **-** | **-** | **-** | **-** | **0.6** | **0.6** | **-** | **0.6** |
| Issuance of share capital | 16 | **1.4** | **404.7** | **-** | **-** | **-** | | **406.1** | **-** | **406.1** |
| Dividend | 17 | **-** | **-** | **-** | **-** | **-** | **(375.0)** | **(375.0)** | **-** | **(375.0)** |
| Contribution from parent in relation to the acquisition of the Riverstone pension plan | | **-** | **-** | **-** | **28.5** | **-** | **-** | **28.5** | **-** | **28.5** |
| Transactions with non-controlling interests | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **124.1** | **124.1** |
| **At 31 December 2021** | | **10.0** | **1,432.6** | **1.0** | **28.5** | **(85.2)** | **525.5** | **1,912.4** | **234.2** | **2,146.6** |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements

## 1 General information

The condensed consolidated interim financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the six months ended 30 June 2022 were authorised for issue in accordance with a resolution of the Directors on 27 July 2022.

Brit Limited is a limited company, incorporated and domiciled in England and Wales. The Group's principal activity is the underwriting of general insurance and reinsurance business.

## 2 Accounting policies and basis of preparation

### (a) Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2022 have been prepared in accordance with UK-adopted IAS 34 'Interim Financial Reporting'. The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied by the Brit Limited Group in its consolidated financial statements as at the year ended 31 December 2021.

This 2022 condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006.

Statutory accounts for Brit Limited, for the year ended 31 December 2021 were prepared in accordance with UK-adopted international accounting standards and UK company law. The consolidated financial statements of the Brit Limited Group for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 22 February 2022.

The 2022 statutory accounts of Brit Limited will be prepared in accordance with UK-adopted international accounting standards.

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules issued by the Financial Conduct Authority. The information presented herein does not include all the disclosures typically required for full consolidated financial statements. Consequently, these financial statements should be read in conjunction with the full consolidated financial statements of the Brit Limited Group as at, and for the year ended 31 December 2021 available from the Company's registered office or from www.britinsurance.com.

The Directors have reviewed the principal risks and uncertainties faced by the Group as summarised on pages 9 and 10 of the Interim Management Report. These principal risks and uncertainties are largely unchanged from those disclosed on page 42 of the Group's 2021 Annual Report. New risks continue to emerge such as those surrounding the Russia-Ukraine conflict and the current inflationary environment. Brit manages such emerging risks in line with its risk management framework.

The capital position of the Group remains strong, following its performance in 2021 and the support during 2020 of its parent company, Fairfax Financial Holdings Limited. A review of the financial performance of the Group is summarised on pages 4 to 8. The financial position of the Group and borrowing facilities are summarised on pages 8 and 9.

After making enquiries, 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 condensed consolidated interim financial statements.

### (b) 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.

## 2 Accounting policies and basis of preparation (continued)

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.

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 2021:

- 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.
- Subsidiaries of the Group participated as members of Syndicate 2988, providing 60.70%, 57.67% and 67.98% of the capital for the 2020, 2021 and 2022 years of account respectively. Consequently, the proportionate shares of the transactions, assets and liabilities of Syndicate 2988 have been included in the Group's financial statements.
- Riverstone Corporate Capital 4 Limited, a subsidiary of the Group, provided 100% of the capital for Syndicate 1618 and therefore all transactions, assets and liabilities of Syndicate 1618 have been included in the Group's financial statements.

If control of a subsidiary (including a structured entity) is lost during the reporting period, the assets and liabilities of that entity will be derecognised from the consolidated statement of financial position. The revenues and expenses of the entity will no longer be consolidated following the date that control is lost. The difference between the fair value of the consideration received, if any, from the transaction resulting in a loss of control and the fair value of the subsidiary's net assets will be recognised as a gain or loss in the income statement.

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.

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 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.

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 and, where relevant, remeasured at subsequent reporting dates. 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 Accounting policies and basis of preparation (continued)

### (c) Critical accounting estimates and judgements in applying accounting policies

Management is required to make various judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses.

***Estimates***

Estimates 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. The areas of critical accounting estimates and the key sources of estimation uncertainty are unchanged from those applied to the Group's 2021 Annual Report and accounts. In addition, the potential impact of COVID-19 on the Group has been considered in the preparation of the interim financial statements, including in our application of critical accounting estimates. Actual results may differ from these estimates.

***Judgements***

The areas of critical accounting judgement the Group makes in applying accounting policies and the key sources of estimation uncertainty are unchanged from those applied to the Group's 2021 Annual Report. The potential impact of COVID-19 on the Group has been considered in management's evaluation of critical accounting judgements.

### (d) New accounting standards adopted in the period

There are no accounting pronouncements which have become effective from 1 January 2022 that have a significant impact on the Group's interim condensed consolidated financial statements.

## 3 Risk management policies

The Group's financial, insurance and other risk management objectives and policies are consistent with those disclosed in Note 4 to the Group's consolidated financial statements as at and for the year ended 31 December 2021. The principal risks and uncertainties are unchanged and may be summarised as insurance risk, investment risk, market risk, credit risk, liquidity risk, capital risk and operational risk.

Further details are provided on pages 9 and 10 of the Interim Management Report.

## 4 Seasonality of operations

The Group underwrites a wide range of risks, some of which are subject to potential seasonal variation. The most material of these is the Group's exposure to North Atlantic hurricanes which are largely concentrated into the second half of a calendar year. The Group actively participates in many regions and if any catastrophe events do occur, it is likely that the Group will share some of the market's losses. Consequently, the potential for significantly greater volatility in expected returns remains during the second half of the year.

## 5 Segmental information

As at 30 June 2022, the reportable segments identified were as follows:

- 'London Direct', which underwrites the Group's international and US business, other than treaty reinsurance. London Direct predominantly deals with wholesale buyers of insurance, rather than individuals. Risks are large and usually syndicated by several underwriters by means of the subscription market. It includes direct business generated by Ambridge and Camargue.

- '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. It includes reinsurance business generated by BGSB (Bermuda) and Ambridge.

- '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 included within 'gains on other financial liabilities'.

- 'Investments' represents the Group's investment activity, excluding that associated with the 'Ki' reporting segment.

- 'Corporate', which is made up of residual income and expenditure and foreign exchange movements not allocated to other segments.

- 'Ki' represents the activities of the Ki Financial Limited sub-group, which underwrites business through Syndicate 1618.

The segments for the six months ended 30 June 2021 and the year ended 31 December 2021 have been re-presented on this basis.

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, other insurance related expenses, gains/losses on other financial liabilities and other income divided by earned premiums, net of reinsurance.
- The combined ratio is the sum of the claims ratio and the expense ratio.

These ratios are now presented after FX movements on non-monetary items, after the impact of gains/losses on other financial liabilities and before any adjustment for non-controlling interests. The ratios for the six months ended 30 June 2021 are re-presented on this basis.

## 5 Segmental information (continued)

**Statement of profit or loss by segment**
**6 months ended 30 June 2022**

| $m | London Direct | London Reinsurance | Discontinued Underwriting | Other Underwriting | Total Brit Underwriting (excluding Ki) | Investments | Corporate | Total Brit (excluding Ki) | Ki | Total Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 1,005.3 | 560.6 | (2.8) | 84.5 | **1,647.6** | - | - | **1,647.6** | 342.9 | **1,990.5** |
| Premiums written, net of reinsurance | 674.6 | 424.9 | 3.1 | 82.2 | **1,184.8** | - | - | **1,184.8** | 231.8 | **1,416.6** |
| Earned premiums, net of reinsurance | 687.0 | 288.7 | 3.6 | 70.9 | **1,050.2** | - | - | **1,050.2** | 198.8 | **1,249.0** |
| Investment return | - | - | - | - | **-** | (209.4) | - | **(209.4)** | (25.6) | **(235.0)** |
| Return on derivative contracts | - | - | - | - | **-** | 0.8 | (5.8) | **(5.0)** | (2.3) | **(7.3)** |
| Other income | 9.4 | 5.2 | - | 0.8 | **15.4** | - | 7.2 | **22.6** | - | **22.6** |
| Losses on other financial liabilities | - | - | - | (5.3) | **(5.3)** | - | - | **(5.3)** | - | **(5.3)** |
| Net foreign exchange gains | - | - | - | - | **-** | - | 1.1 | **1.1** | 1.4 | **2.5** |
| **Total revenue** | **696.4** | **293.9** | **3.6** | **66.4** | **1,060.3** | **(208.6)** | **2.5** | **854.2** | **172.3** | **1,026.5** |
| Gross claims incurred | (551.1) | (212.4) | (39.7) | (43.4) | **(846.6)** | - | - | **(846.6)** | (125.2) | **(971.8)** |
| Reinsurers' share | 182.7 | 46.7 | 37.0 | (4.8) | **261.6** | - | - | **261.6** | 15.2 | **276.8** |
| Claims incurred, net of reinsurance | (368.4) | (165.7) | (2.7) | (48.2) | **(585.0)** | - | - | **(585.0)** | (110.0) | **(695.0)** |
| Acquisition costs – commission | (191.9) | (56.3) | (1.0) | (2.2) | **(251.4)** | - | - | **(251.4)** | (46.6) | **(298.0)** |
| Acquisition costs – other | (34.5) | (12.2) | (0.8) | (24.6) | **(72.1)** | - | - | (72.1) | (26.7) | **(98.8)** |
| Other insurance related expenses | (51.0) | (9.4) | - | (1.2) | **(61.6)** | - | - | (61.6) | (0.8) | **(62.4)** |
| Other expenses | - | - | - | - | **-** | - | (33.8) | **(33.8)** | - | **(33.8)** |
| **Total expenses excluding finance costs** | **(645.8)** | **(243.6)** | **(4.5)** | **(76.2)** | (970.1) | - | (33.8) | (1,003.9) | (184.1) | (1,188.0) |
| **Operating loss** | **50.6** | **50.3** | **(0.9)** | **(9.8)** | **90.2** | (208.6) | (31.3) | **(149.7)** | (11.8) | **(161.5)** |
| Finance costs | | | | | - | - | (8.4) | **(8.4)** | (2.5) | **(10.9)** |
| Share of net profit of associates | | | | | - | 0.8 | - | **0.8** | - | **0.8** |
| **Loss on ordinary activities before tax** | | | | | **90.2** | **(207.8)** | **(39.7)** | **(157.3)** | **(14.3)** | **(171.6)** |
| Tax charge | | | | | | | | | | **(15.3)** |
| **Loss for the year** | | | | | | | | | | **(186.9)** |
| Claims ratio | 53.6% | 57.4% | 75.0% | 68.0% | **55.7%** | | | **55.7%** | 55.3% | **55.6%** |
| Expense ratio | 39.0% | 25.2% | 50.0% | 45.8% | **35.7%** | | | **35.7%** | 37.3% | **36.0%** |
| **Combined ratio** | **92.6%** | **82.6%** | **125.0%** | **113.8%** | **91.4%** | | | **91.4%** | **92.6%** | **91.6%** |

## 5 Segmental information (continued)

**Statement of profit or loss by segment (continued)**
**6 months ended 30 June 2021**

| $m | London Direct | London Reinsurance | Discontinued Underwriting | Other Underwriting | Total Brit Underwriting (excluding Ki) | Investments | Corporate | Total Brit (excluding Ki) | Ki | Total Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 852.4 | 438.8 | 8.0 | 51.0 | **1,350.2** | - | - | **1,350.2** | 114.2 | **1,464.4** |
| Premiums written, net of reinsurance | 493.9 | 236.3 | 6.0 | 51.2 | **787.4** | - | - | **787.4** | 77.0 | **864.4** |
| Earned premiums, net of reinsurance | 552.4 | 224.6 | 41.4 | 32.1 | **850.5** | - | - | **850.5** | 25.5 | **876.0** |
| Investment return | - | - | - | - | **-** | 165.1 | - | **165.1** | 1.2 | **166.3** |
| Return on derivative contracts | - | - | - | - | **-** | 1.7 | (17.1) | **(15.4)** | - | **(15.4)** |
| Gains on deconsolidation of subsidiaries | - | - | - | - | **-** | - | 19.8 | **19.8** | - | **19.8** |
| Other income | 15.9 | 8.2 | 0.1 | 1.0 | **25.2** | - | 11.5 | **36.7** | - | **36.7** |
| Losses on other financial liabilities | - | - | - | (0.1) | **(0.1)** | - | - | **(0.1)** | - | **(0.1)** |
| Net foreign exchange gains | - | - | - | - | **-** | - | 5.8 | **5.8** | - | **5.8** |
| **Total revenue** | **568.3** | **232.8** | **41.5** | **33.0** | **875.6** | **166.8** | **20.0** | **1,062.4** | **26.7** | **1,089.1** |
| Gross claims incurred | (421.7) | (199.8) | (33.5) | (27.6) | **(682.6)** | - | - | **(682.6)** | (16.4) | **(699.0)** |
| Reinsurers' share | 140.9 | 60.9 | 4.8 | 0.4 | **207.0** | - | - | **207.0** | 0.8 | **207.8** |
| Claims incurred, net of reinsurance | (280.8) | (138.9) | (28.7) | (27.2) | **(475.6)** | - | - | **(475.6)** | (15.6) | **(491.2)** |
| Acquisition costs – commission | (158.3) | (43.1) | (13.8) | (2.9) | **(218.1)** | - | - | **(218.1)** | (7.7) | **(225.8)** |
| Acquisition costs – other | (43.6) | (15.3) | (3.0) | (6.8) | **(68.7)** | - | - | **(68.7)** | (8.3) | **(77.0)** |
| Other insurance related expenses | (43.1) | (19.9) | (0.2) | (3.7) | **(66.9)** | - | - | **(66.9)** | (0.6) | **(67.5)** |
| Other expenses | - | - | - | - | **-** | - | (22.4) | **(22.4)** | - | **(22.4)** |
| **Total expenses excluding finance costs** | **(525.8)** | **(217.2)** | **(45.7)** | **(40.6)** | **(829.3)** | **-** | **(22.4)** | **(851.7)** | **(32.2)** | **(883.9)** |
| **Operating profit** | **42.5** | **15.6** | **(4.2)** | **(7.6)** | **46.3** | **166.8** | **(2.4)** | **210.7** | **(5.5)** | **205.2** |
| Finance costs | | | | | **-** | - | (7.3) | **(7.3)** | (1.5) | **(8.8)** |
| Share of net profit of associates | | | | | **-** | 0.9 | - | **0.9** | - | **0.9** |
| **Profit on ordinary activities before tax** | | | | | **46.3** | **167.7** | **(9.7)** | **204.3** | **(7.0)** | **197.3** |
| Tax credit | | | | | | | | | | **7.0** |
| **Profit for the year** | | | | | | | | | | **204.3** |
| Claims ratio | 50.8% | 61.8% | 69.3% | 84.7% | **55.9%** | | | **55.9%** | 61.2% | **56.1%** |
| Expense ratio | 41.5% | 31.2% | 40.8% | 38.9% | **38.6%** | | | **38.6%** | 65.1% | **39.4%** |
| **Combined ratio** | **92.3%** | **93.0%** | **110.1%** | **123.6%** | **94.5%** | | | **94.5%** | **126.3%** | **95.5%** |

## 5 Segmental information (continued)

### Statement of profit or loss by segment (continued)
### Year ended 31 December 2021

| $m | London Direct | London Reinsurance | Discontinued Underwriting | Other Underwriting | Total Brit Underwriting (excluding Ki) | Investments | Corporate | Total Brit (excluding Ki) | Ki | Total Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 1,891.5 | 815.1 | 20.6 | 115.5 | **2,842.7** | - | - | **2,842.7** | 395.6 | **3,238.3** |
| Premiums written, net of reinsurance | 1,260.1 | 380.3 | (114.0) | 126.3 | **1,652.7** | - | - | **1,652.7** | 345.6 | **1,998.3** |
| Earned premiums, net of reinsurance | 1,155.3 | 392.3 | (57.4) | 98.5 | **1,588.7** | - | - | **1,588.7** | 165.6 | **1,754.3** |
| Investment return | - | - | - | - | **-** | 165.8 | - | **165.8** | 1.4 | **167.2** |
| Return on derivative contracts | - | - | - | - | **-** | 3.0 | (18.7) | **(15.7)** | - | **(15.7)** |
| Gains on deconsolidation of subsidiaries | - | - | - | - | **-** | - | 19.8 | **19.8** | - | **19.8** |
| Gain on business combination | - | - | - | - | **-** | - | 6.1 | **6.1** | - | **6.1** |
| Other income | 37.7 | 16.2 | 0.4 | 2.3 | **56.6** | - | 21.7 | **78.3** | - | **78.3** |
| Gains on other financial liabilities | - | - | - | 2.5 | **2.5** | - | - | **2.5** | - | **2.5** |
| **Total revenue** | **1,193.0** | **408.5** | **(57.0)** | **103.3** | **1,647.8** | **168.8** | **28.9** | **1,845.5** | **167.0** | **2,012.5** |
| Gross claims incurred | (963.2) | (512.1) | (54.1) | (70.1) | **(1,599.5)** | - | - | **(1,599.5)** | (124.7) | **(1,724.2)** |
| Reinsurers' share | 381.1 | 315.5 | 147.0 | (10.5) | **833.1** | - | - | **833.1** | 9.5 | **842.6** |
| Claims incurred, net of reinsurance | (582.1) | (196.6) | 92.9 | (80.6) | **(766.4)** | - | - | **(766.4)** | (115.2) | **(881.6)** |
| Acquisition costs – commission | (351.2) | (111.8) | (18.7) | (3.9) | **(485.6)** | - | - | **(485.6)** | (42.8) | **(528.4)** |
| Acquisition costs – other | (91.7) | (35.6) | (6.0) | (17.5) | **(150.8)** | - | - | **(150.8)** | (29.1) | **(179.9)** |
| Other insurance related expenses | (88.5) | (42.6) | (0.8) | - | **(131.9)** | - | - | **(131.9)** | (1.0) | **(132.9)** |
| Other expenses | - | - | - | - | **-** | - | (44.7) | **(44.7)** | - | **(44.7)** |
| Net foreign exchange losses | - | - | - | - | **-** | - | (0.8) | **(0.8)** | (0.3) | **(1.1)** |
| **Total expenses excluding finance costs** | **(1,113.5)** | **(386.6)** | **67.4** | **(102.0)** | **(1,534.7)** | **-** | **(45.5)** | **(1,580.2)** | **(188.4)** | **(1,768.6)** |
| **Operating profit** | **79.5** | **21.9** | **10.4** | **1.3** | **113.1** | **168.8** | **(16.6)** | **265.3** | **(21.4)** | **243.9** |
| Finance costs | | | | | **-** | - | (14.7) | **(14.7)** | (3.6) | **(18.3)** |
| Share of net profit of associates | | | | | **-** | 1.7 | - | **1.7** | - | **1.7** |
| **Profit on ordinary activities before tax** | | | | | **113.1** | **170.5** | **(31.3)** | **252.3** | **(25.0)** | **227.3** |
| Tax credit | | | | | | | | | | **9.6** |
| **Profit for the year** | | | | | | | | | | **236.9** |
| Claims ratio | 50.4% | 50.1% | 161.8% | 81.8% | **48.2%** | | | **48.2%** | 69.6% | **50.3%** |
| Expense ratio | 42.7% | 44.3% | -43.7% | 16.9% | **44.6%** | | | **44.6%** | 44.0% | **44.6%** |
| **Combined ratio** | **93.1%** | **94.4%** | **118.1%** | **98.7%** | **92.8%** | | | **92.8%** | **113.6%** | **94.9%** |

## 6 Investment return

**6 months ended 30 June 2022**

| | **Investment income $m** | **Net realised (losses)/gains $m** | **Net unrealised (losses)/gains $m** | **Total investment return $m** |
|---|---|---|---|---|
| Equity securities | **4.2** | **(19.6)** | **(41.4)** | **(56.8)** |
| Debt securities | **23.3** | **(17.2)** | **(130.1)** | **(124.0)** |
| Mortgages and loans | **1.0** | **-** | **-** | **1.0** |
| Specialised investment funds | **0.1** | **0.5** | **(50.3)** | **(49.7)** |
| Cash and cash equivalents | **1.4** | **-** | **-** | **1.4** |
| Total investment return before expenses | **30.0** | **(36.3)** | **(221.8)** | **(228.1)** |
| Investment management expenses | **(6.9)** | **-** | **-** | **(6.9)** |
| Total investment return | **23.1** | **(36.3)** | **(221.8)** | **(235.0)** |

**6 months ended 30 June 2021**

| | Investment income $m | Net realised (losses)/gains $m | Net unrealised gains/(losses) $m | Total investment return $m |
|---|---|---|---|---|
| Equity securities | 5.8 | (1.4) | 96.3 | 100.7 |
| Debt securities | 24.4 | 13.3 | (32.7) | 5.0 |
| Mortgages and loans | 0.4 | - | - | 0.4 |
| Specialised investment funds | - | 2.1 | 65.1 | 67.2 |
| Cash and cash equivalents | 0.1 | - | - | 0.1 |
| Total investment return before expenses | 30.7 | 14.0 | 128.7 | 173.4 |
| Investment management expenses | (7.1) | - | - | (7.1) |
| Total investment return | 23.6 | 14.0 | 128.7 | 166.3 |

**Year ended 31 December 2021**

| | Investment income $m | Net realised gains $m | Net unrealised gains/(losses) $m | Total investment return $m |
|---|---|---|---|---|
| Equity securities | 10.1 | 22.6 | 93.2 | 125.9 |
| Debt securities | 45.9 | 32.4 | (84.1) | (5.8) |
| Mortgages and loans | 1.0 | - | - | 1.0 |
| Specialised investment funds | 0.9 | 4.4 | 54.5 | 59.8 |
| Cash and cash equivalents | 0.5 | - | - | 0.5 |
| Total investment return before expenses | 58.4 | 59.4 | 63.6 | 181.4 |
| Investment management expenses | (14.2) | - | - | (14.2) |
| Total investment return | 44.2 | 59.4 | 63.6 | 167.2 |

## 7 Return on derivative contracts

| | **6 months ended 30 June 2022 $m** | 6 months ended 30 June 2021 $m | Year ended 31 December 2021 $m |
|---|---|---|---|
| Investment-related non-currency options | **0.8** | 1.7 | 3.0 |
| Currency forwards | **(8.1)** | (17.1) | (18.7) |
| **Total return on derivative contracts** | **(7.3)** | (15.4) | (15.7) |

## 8 Deconsolidation of subsidiaries

On 5 February 2021, the Group sold its entire investment in Commonwealth Insurance Company of America and a profit of $3.7m was recognised in the consolidated statement of comprehensive income. At this point, there was a loss of control and, as such, only the subsidiary's results up to date of disposal are included in the current year Group result.

On 25 March 2021, the Brit Group received a return of its investment in North America Property Insurance Series 2017 Account A-3 ('Account A3') (a segregated account within Versutus limited that was previously consolidated into Group). As Brit no longer has an economic interest in Account A3 it has been deconsolidated, resulting in a loss on disposal of $2.2m.

On 28 June 2021, the Group sold its entire investment in Scion Underwriting Services Inc. and a profit of $18.3m was recognised in the consolidated statement of comprehensive income. At this point, there was a loss of control and, as such, only the subsidiary's results up to date of disposal are included in the current year Group result.

## 9 Other income (including gains/(losses) on other financial liabilities)

| | **6 months ended 30 June 2022 $m** | 6 months ended 30 June 2021 $m | Year ended 31 December 2021 $m |
|---|---|---|---|
| Fees and commission from non-aligned syndicate | **3.0** | 3.9 | 7.5 |
| Change in value of ultimate parent company shares held by Brit | **7.2** | 11.5 | 21.7 |
| Net commission fee income from intermediary activities | **11.4** | 18.1 | 42.3 |
| Consortium income | **2.6** | 2.3 | 4.6 |
| Other | **(1.6)** | 0.9 | 2.2 |
| **Other income** | **22.6** | 36.7 | 78.3 |
| Change in value of other financial liabilities* | **(5.3)** | (0.1) | 2.5 |
| **Total** | **17.3** | 36.6 | 80.8 |

*Other financial liabilities are investments by third parties in structured insurance and investment entities consolidated by the Group.

## 10 Net foreign exchange gains/(losses)

The Group recognised foreign exchange gains of $2.5m (30 June 2021: gains of $5.8m; 31 December 2021: losses of $1.1m) in the income statement in the period.

Foreign exchange gains and losses result from the translation of the balance sheet to closing exchange rates and the income statement to average exchange rates. 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.

## 10 Net foreign exchange gains/(losses) (continued)

| | **6 months ended 30 June 2022 $m** | 6 months ended 30 June 2021 $m | Year ended 31 December 2021 $m |
|---|---|---|---|
| Gains/(losses) on foreign exchange arising from: | | | |
| Translation of the statement of financial position and income statement | **13.9** | 6.3 | 2.5 |
| Maintaining UPR/DAC items in the income statement at historic rates | **(11.4)** | (0.5) | (3.6) |
| **Net foreign exchange gains/(losses)** | **2.5** | 5.8 | (1.1) |

Principal exchange rates applied are set out in the table below.

| | **6 months ended 30 June 2022** | | 6 months ended 30 June 2021 | | Year ended 31 December 2021 | |
|---|---|---|---|---|---|---|
| | **Average** | **Closing** | Average | Closing | Average | Closing |
| Sterling | 0.771 | 0.823 | 0.720 | 0.724 | 0.727 | 0.738 |
| Canadian dollar | 1.272 | 1.290 | 1.246 | 1.238 | 1.253 | 1.263 |
| Euro | 0.915 | 0.957 | 0.830 | 0.843 | 0.845 | 0.879 |
| Australian dollar | 1.391 | 1.454 | 1.296 | 1.332 | 1.331 | 1.375 |
| South African rand | 15.400 | 16.383 | 14.520 | 14.279 | 14.765 | 15.960 |

In accordance with IAS 1 ‘Presentation of Financial Statements’, exchange gains and losses are presented on a net basis. They are reported within revenue where they result in a net gain and within expenses where they result in a net loss.

## 11 Acquisition costs and other operating expenses

| | **6 months ended 30 June 2022** | | | 6 months ended 30 June 2021 | | | Year ended 31 December 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Acquisition costs $m** | **Other operating expenses $m** | **Total $m** | Acquisition costs $m | Other operating expenses $m | Total $m | Acquisition costs $m | Other operating expenses $m | Total $m |
| Salary, pension and social security costs | **48.9** | **48.8** | **97.7** | 39.5 | 45.3 | 84.8 | 90.9 | 87.8 | 178.7 |
| Other staff related costs | **2.5** | **12.4** | **14.9** | 2.0 | 11.7 | 13.7 | 4.6 | 23.6 | 28.2 |
| Accommodation costs | **2.3** | **0.9** | **3.2** | 1.6 | 1.1 | 2.7 | 4.2 | 2.7 | 6.9 |
| Legal and professional charges | **3.3** | **6.1** | **9.4** | 4.4 | 5.5 | 9.9 | 9.8 | 12.3 | 22.1 |
| IT costs | **1.0** | **12.2** | **13.2** | 1.2 | 12.9 | 14.1 | 2.6 | 26.1 | 28.7 |
| Travel and entertaining | **1.5** | **0.8** | **2.3** | 0.1 | 0.1 | 0.2 | 0.9 | 0.6 | 1.5 |
| Marketing and communications | **0.1** | **1.1** | **1.2** | 0.1 | 0.9 | 1.0 | 0.2 | 1.5 | 1.7 |
| Amortisation and impairment of intangible assets | **0.4** | **5.2** | **5.6** | 0.3 | 5.1 | 5.4 | 0.5 | 11.2 | 11.7 |
| Depreciation and impairment of property, plant and equipment | **1.3** | **2.8** | **4.1** | 2.2 | 3.2 | 5.4 | 3.9 | 6.7 | 10.6 |
| Regulatory levies and charges | **35.5** | **-** | **35.5** | 28.3 | - | 28.3 | 58.2 | - | 58.2 |
| Other | **2.0** | **5.9** | **7.9** | (2.7) | 4.1 | 1.4 | 4.1 | 5.1 | 9.2 |
| Expenses before commissions | **98.8** | **96.2** | **195.0** | 77.0 | 89.9 | 166.9 | 179.9 | 177.6 | 357.5 |
| Commission costs | **298.0** | **-** | **298.0** | 225.8 | - | 225.8 | 528.4 | - | 528.4 |
| Total acquisition costs and other operating expenses | **396.8** | **96.2** | **493.0** | 302.8 | 89.9 | 392.7 | 708.3 | 177.6 | 885.9 |

## 12 Tax expense

### (a) Tax charged to income statement

| | **6 months ended 30 June 2022 $m** | 6 months ended 30 June 2021 $m | Year ended 31 December 2021 $m |
|---|---|---|---|
| Current tax: | | | |
| Current tax on income for the period | **-** | - | 0.5 |
| Overseas tax on income for the period | **(2.0)** | (7.0) | (12.4) |
| | **(2.0)** | (7.0) | (11.9) |
| Double tax relief | **-** | 0.6 | 1.2 |
| Adjustments in respect of prior years | **(4.5)** | (0.6) | 0.7 |
| Total current tax | **(6.5)** | (7.0) | (10.0) |
| Deferred tax: | | | |
| Relating to the origination and reversal of temporary differences | **(10.1)** | 14.3 | 21.9 |
| Adjustments in respect of prior years | **1.3** | (0.3) | (2.3) |
| Total deferred tax | **(8.8)** | 14.0 | 19.6 |
| **Total tax (charged)/credited to income statement** | **(15.3)** | 7.0 | 9.6 |

Overseas taxes arise in respect of the Group's subsidiaries in the US, Germany, and South Africa and as a result of the Group's operations at Lloyd's. Double tax relief principally arises 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. The double tax relief amount is included within deferred tax on the basis that the amount will be recovered against future liabilities within the Group.

### (b) Tax charged to other comprehensive income

| | **6 months ended 30 June 2022 $m** | 6 months ended 30 June 2021 $m | Year ended 31 December 2021 $m |
|---|---|---|---|
| Deferred tax charge on actuarial gains on defined benefit pension schemes | **-** | **-** | **(6.5)** |

## 13 Insurance and reinsurance contracts

**Balances on insurance and reinsurance contracts**

| | **30 June 2022 $m** | 30 June 2021 $m | 31 December 2021 $m |
|---|---|---|---|
| **Gross:** | | | |
| Insurance contracts | | | |
| Claims reported and loss adjustment expenses | **1,805.5** | 1,778.3 | 1,815.9 |
| Unexpired risk reserve | **-** | 4.2 | - |
| Claims incurred but not reported | **3,548.0** | 2,991.8 | 3,325.0 |
| | **5,353.5** | 4,774.3 | 5,140.9 |
| Unearned premiums | **1,801.2** | 1,342.3 | 1,392.0 |
| Total gross liabilities | **7,154.7** | 6,116.6 | 6,532.9 |
| **Recoverable from reinsurers:** | | | |
| Reinsurance contracts | | | |
| Claims reported and loss adjustment expenses | **656.3** | 540.5 | 685.7 |
| Claims incurred but not reported | **1,279.3** | 937.8 | 1,208.7 |
| | **1,935.6** | 1,478.3 | 1,894.4 |
| Unearned premiums | **637.8** | 604.0 | 396.8 |
| Total reinsurers' share of liabilities | **2,573.4** | 2,082.3 | 2,291.2 |
| **Net:** | | | |
| Claims reported and loss adjustment expenses | **1,149.2** | 1,237.8 | 1,130.2 |
| Unexpired risk reserve | **-** | 4.2 | - |
| Claims incurred but not reported | **2,268.7** | 2,054.0 | 2,116.3 |
| | **3,417.9** | 3,296.0 | 3,246.5 |
| Unearned premiums | **1,163.4** | 738.3 | 995.2 |
| Total net insurance liabilities | **4,581.3** | 4,034.3 | 4,241.7 |

The net aggregate reserve movement from prior years amounted to a strengthening of $8.6m (June 2021: $41.4m release; December 2021: $100.1m release). The movement in the period comprised strengthening in respect of historic catastrophe events ($14.7m), partly offset by attritional reserve releases ($6.1m). Releases in previous years have arisen from the Group's reserving philosophy which reflects a conservative best estimate, reserving prudently for the most recent years where the outcome is most uncertain, leaving a potential for subsequent release.

## 14 Financial investments

| | **30 June 2022 $m** | 30 June 2021 $m | 31 December 2021 $m |
|---|---|---|---|
| Equity securities | **444.9** | 494.2 | 480.1 |
| Debt securities | **3,400.2** | 3,187.7 | 3,139.8 |
| Mortgages and loans | **34.6** | 39.3 | 38.3 |
| Specialised investment funds | **294.2** | 363.4 | 356.8 |
| | **4,173.9** | 4,084.6 | 4,015.0 |

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

## 14 Financial investments (continued)

**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.

**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 Group'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.

## 14 Financial investments (continued)

***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**

| | **30 June 2022** | | | |
|---|---|---|---|---|
| | Level one $m | Level two $m | Level three $m | Total $m |
| Equity securities | **298.4** | **-** | **146.5** | **444.9** |
| Debt securities | **1,962.4** | **1,408.2** | **29.6** | **3,400.2** |
| Mortgages and loans | **-** | **-** | **34.6** | **34.6** |
| Specialised investment funds | **-** | **234.5** | **59.7** | **294.2** |
| | **2,260.8** | **1,642.7** | **270.4** | **4,173.9** |

| | 30 June 2021 | | | |
|---|---|---|---|---|
| | Level one $m | Level two $m | Level three $m | Total $m |
| Equity securities | 357.5 | - | 136.7 | 494.2 |
| Debt securities | 1,443.0 | 1,706.4 | 38.3 | 3,187.7 |
| Mortgages and loans | - | - | 39.3 | 39.3 |
| Specialised investment funds | - | 317.9 | 45.5 | 363.4 |
| | 1,800.5 | 2,024.3 | 259.8 | 4,084.6 |

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | Level one $m | Level two $m | Level three $m | Total $m |
| Equity securities | 345.5 | - | 134.6 | 480.1 |
| Debt securities | 2,026.0 | 1,077.3 | 36.5 | 3,139.8 |
| Mortgages and loans | - | - | 38.3 | 38.3 |
| Specialised investment funds | - | 296.3 | 60.5 | 356.8 |
| | 2,371.5 | 1,373.6 | 269.9 | 4,015.0 |

All unrealised losses of $221.8m (30 June 2021: gains of $128.7m; 31 December 2021: gains of $63.6m) and realised losses of $36.3m (30 June 2021: gains of $14.0m; 31 December 2021: gains of $59.4m) on financial investments held during the period, are presented in the 'Investment return' line item 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.

## 14 Financial investments (continued)

**Transfer from level two to level three**
There were no transfers from fair value hierarchy level two to level three (30 June 2021: $33.4m; 31 December 2021: $50.0m).

There were no other transfers between hierarchy levels in the period or in the comparative periods.

**Reconciliation of movements in level three financial investments measured at fair value**

| | Equity securities $m | Debt securities $m | Mortgages and loans $m | Specialised investment funds $m | Total $m |
|---|---|---|---|---|---|
| **At 1 January 2021** | 129.0 | 15.4 | 23.0 | 15.2 | 182.6 |
| Transfers from level two to level three | - | - | - | 50.0 | 50.0 |
| Total gains/(losses) recognised in the income statement | 29.9 | (1.7) | - | (3.7) | 24.5 |
| Purchases | 9.7 | 22.7 | 26.1 | - | 58.5 |
| Sales | (33.8) | - | (9.6) | - | (43.4) |
| Foreign exchange (losses)/gains | (0.2) | 0.1 | (1.2) | (1.0) | (2.3) |
| **At 31 December 2021** | 134.6 | 36.5 | 38.3 | 60.5 | 269.9 |
| Total gains/(losses) recognised in the income statement | **12.4** | **(6.6)** | **-** | **1.5** | **7.3** |
| Purchases | **8.8** | **-** | **-** | **2.5** | **11.3** |
| Sales | **(8.9)** | **-** | **-** | **-** | **(8.9)** |
| Foreign exchange (losses)/gains | **(0.4)** | **(0.3)** | **(3.7)** | **(4.8)** | **(9.2)** |
| **At 30 June 2022** | **146.5** | **29.6** | **34.6** | **59.7** | **270.4** |

Total net gains recognised in the income statement under 'Investment return' in respect of level three financial investments for the period amounted to $7.3m (30 June 2021: gains of $8.8m; 31 December 2021: gains of $24.5m). Included in this balance are $7.2m of unrealised gains (30 June 2021: gains of $11.6m; 31 December 2021: gains of $19.7m) attributable to assets still held at the end of the period.

**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.

| | **30 June 2022** | | 30 June 2021 | | 31 December 2021 | |
|---|---|---|---|---|---|---|
| | **Carrying amount $m** | **Effect of possible alternative assumptions (+/-) $m** | Carrying amount $m | Effect of possible alternative assumptions (+/-) $m | Carrying amount $m | Effect of possible alternative assumptions (+/-) $m |
| Equity securities | **146.5** | **15.1** | 136.7 | 5.0 | 134.6 | 2.8 |
| Debt securities | **29.6** | **1.6** | 38.3 | 0.7 | 36.5 | (0.6) |
| Mortgages and loans | **34.6** | **1.1** | 39.3 | 0.3 | 38.3 | (0.3) |
| Specialised investment funds | **59.7** | **1.1** | 45.5 | 0.1 | 60.5 | 1.1 |
| | **270.4** | | 259.8 | | 269.9 | |

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 2022, or since acquisition if acquired during the year. This has resulted in an average expected percentage change in the securities pricing, which forms the basis of this analysis.

## 15 Derivative contracts

| Derivative contract assets | **30 June 2022 $m** | 30 June 2021 $m | 31 December 2021 $m |
|---|---|---|---|
| Currency forwards | **16.4** | 13.5 | 8.9 |
| Options | **-** | 0.1 | 0.5 |
| Industry loss warranty contracts | **1.8** | 1.9 | 0.1 |
| Sutton forward contract | **0.8** | 1.4 | 0.7 |
| Equity warrants | **3.0** | 5.7 | 4.9 |
| | **22.0** | 22.6 | 15.1 |

| Derivative contract liabilities | **30 June 2022 $m** | 30 June 2021 $m | 31 December 2021 $m |
|---|---|---|---|
| Currency forwards | **(14.2)** | (13.7) | (12.2) |
| Total return swap | **-** | (1.5) | (0.3) |
| | **(14.2)** | (15.2) | (12.5) |

**Disclosures of fair values in accordance with the fair value hierarchy**

| | **30 June 2022** | | |
|---|---|---|---|
| | **Level two $m** | **Level three $m** | **Total $m** |
| Derivative contract assets | **16.4** | **5.6** | **22.0** |
| Derivative contract liabilities | **(14.2)** | **-** | **(14.2)** |

| | 30 June 2021 | | |
|---|---|---|---|
| | Level two $m | Level three $m | Total $m |
| Derivative contract assets | 13.4 | 9.2 | 22.6 |
| Derivative contract liabilities | (15.2) | - | (15.2) |

| | 31 December 2021 | | |
|---|---|---|---|
| | Level two $m | Level three $m | Total $m |
| Derivative contract assets | 8.9 | 6.2 | 15.1 |
| Derivative contract liabilities | (12.5) | - | (12.5) |

**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.

## 15 Derivative contracts (continued)

***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 forward contract that the Group has in respect of its associated undertaking has been classified as level three as the valuation of that derivative is derived from unobservable inputs which is linked to EBITDA calculations.

**Reconciliation of movements in level three derivative contracts measured at fair value**

| | **Level three derivatives $m** |
|---|---|
| **At 1 January 2021** | 2.3 |
| Purchases | 1.3 |
| Total gains recognised in the income statement | 4.4 |
| Foreign exchange losses | (1.8) |
| **At 31 December 2021** | 6.2 |
| Purchases | **4.7** |
| Sales | **(5.0)** |
| Total gains recognised in the income statement | **1.7** |
| Foreign exchange losses | **(2.0)** |
| **At 30 June 2022** | **5.6** |

**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.

| | **30 June 2022** | | 30 June 2021 | | 31 December 2021 | |
|---|---|---|---|---|---|---|
| | **Carrying amount $m** | **Effect of possible alternative assumptions (+/-) $m** | Carrying amount $m | Effect of possible alternative assumptions (+/-) $m | Carrying amount $m | Effect of possible alternative assumptions (+/-) $m |
| Options | **-** | **-** | 0.1 | - | **0.5** | **0.1** |
| Industry loss warranty contracts | **1.8** | **0.5** | 1.9 | 0.6 | **0.1** | **-** |
| Sutton forward contract | **0.8** | **0.1** | 1.4 | 0.1 | **0.7** | **0.1** |
| Equity warrants | **3.0** | **0.4** | 5.8 | - | **4.9** | **0.5** |
| | **5.6** | | **9.2** | | **6.2** | |

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs, including inflation volatility inputs and credit risk inputs.

## 16 Share Capital

| | 30 June 2022 $m | 30 June 2021 $m | 31 December 2021 $m | 30 June 2022 1p each Number | 30 June 2021 1p each Number | 31 December 2021 1p each Number |
|---|---|---|---|---|---|---|
| Ordinary shares: | | | | | | |
| Allotted, Issued and fully paid | **10.0** | 8.6 | 10.0 | **669,502,094** | 568,837,653 | 669,502,094 |

As at 30 June 2022, 92,364,532 shares are class A shares and the remainder are class B shares. The class A and B shares rank pari passu except that on a distribution of profits by the Company, the class A shareholders are entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to class B shareholders.

The number of shares reported is for Brit Limited, the immediate parent of the Group.

As at the reporting date, Fairfax owns 86.2% of Brit Limited while the remaining 13.8% is owned by OMERS.

During the prior year, the following issuances of Class A and Class B Ordinary Shares (each with a nominal value of 1p) by Brit Limited took place:

- On 06 July 2021, 1,627,907 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for $7.0m. Following this share issuance, $7.0m was recorded in the share premium accounts.
- On 27 August 2021, 92,364,532 Class A Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for $375.0m. Following this share issuance, $373.7m was recorded in the share premium accounts.
- On 17 December 2021, 6,672,002 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for $24.1m. Following this share issuance, $24.0m was recorded in the share premium accounts.

## 17 Dividends

In the six-month period ending 30 June 2022, a total dividend of $18.7m was paid (30 June 2021: $nil; 31 December 2021: $375.0m) at an amount equal to $0.20 per share (30 June 2021: $nil; 31 December 2021: $0.66 per share). The $18.7m dividend was paid to the class A shareholders on 27 April 2022 in accordance with the Brit Limited shareholders' agreement.

## 18 Cash flows provided by operating activities

| | **6 months ended 30 June 2022 $m** | 6 months ended 30 June 2021 $ | Year ended 31 December 2021 $ |
|---|---|---|---|
| **(Loss)/profit on ordinary activities before tax** | **(171.6)** | 197.3 | 227.3 |
| **Adjustments for non-cash movements:** | | | |
| Realised and unrealised losses/(gains) on investments | **258.1** | (142.7) | (123.0) |
| Realised and unrealised losses on derivatives | **7.3** | 15.4 | 15.7 |
| Amortisation of intangible assets | **2.3** | 5.4 | 11.7 |
| Depreciation and impairment of property, plant and equipment | **(1.2)** | 5.4 | 10.1 |
| Foreign exchange losses/(gains) on cash and cash equivalents | **15.0** | (0.7) | 1.1 |
| Share of profit after tax of associated undertakings | **(0.8)** | (0.9) | (1.7) |
| Profit on disposal of subsidiaries | **-** | (19.8) | (19.8) |
| Profit on disposal of associated undertaking | **-** | | (6.1) |
| Unrealised gains on shares held for share based payments | **(5.5)** | (11.5) | (21.7) |
| Charges in respect of share-based payment schemes | **8.6** | 8.6 | 17.3 |
| Interest income | **(25.7)** | (24.9) | (47.4) |
| Dividend income | **(4.2)** | (5.8) | (11.0) |
| Finance costs on borrowing | **10.9** | 8.8 | 18.3 |
| **Movement in operating assets and liabilities:** | | | |
| Deferred acquisition costs | **(65.8)** | (54.1) | (74.5) |
| Insurance and other receivables excluding accrued income | **(277.7)** | (278.0) | (279.7) |
| Insurance and reinsurance contracts | **339.6** | (14.6) | 192.8 |
| Financial investments | **(426.9)** | 109.5 | 157.3 |
| Derivative contracts | **(12.5)** | (32.3) | (12.6) |
| Other financial liabilities | **5.0** | 22.4 | 33.8 |
| Insurance and other payables | **(62.2)** | 429.2 | 599.5 |
| Employee benefits | **9.0** | 1.0 | (65.0) |
| Provisions | **(0.2)** | - | 0.1 |
| **Cash flows (used in)/provided by operating activities** | **(398.5)** | 217.7 | 622.5 |

## 19 Related party transactions

**(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 (FFHL) 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 FFHL, was appointed as an investment manager to a number of Group companies. The Group incurred and paid investment management fees to HWIC of $5.8m (30 June 2021: $6.1m; 31 December 2021: $11.9m).

The Brit Group has historically entered into various reinsurance arrangements with FFHL and its affiliates.

The amounts included in the income statement relating to trading with Fairfax Financial Holdings Limited and its affiliates for the period were as follows:

| | **6 months to 30 June 2022 $m** | 6 months to 30 June 2021 $m | Year to 31 December 2021 $m |
|---|---|---|---|
| Gross premiums written | **9.0** | 8.6 | 16.4 |
| Less premiums ceded to reinsurers | **(10.2)** | (9.8) | (15.9) |
| Premiums written, net of reinsurance | **(1.2)** | (1.2) | 0.5 |
| Gross amount of change in provision for unearned premiums | **(1.8)** | 0.4 | (1.8) |
| Reinsurers' share of change in provision for unearned premiums | **1.5** | 2.3 | 1.2 |
| Net change in provision for unearned premiums | **(0.3)** | 2.7 | (0.6) |
| Earned premiums, net of reinsurance | **(1.5)** | 1.5 | (0.1) |
| Gross claims paid | **(5.8)** | (3.0) | (13.5) |
| Reinsurers' share of claims paid | **1.8** | 3.9 | 6.6 |
| Claims paid, net of reinsurance | **(4.0)** | 0.9 | (6.9) |
| Gross change in the provision for claims | **3.0** | 4.5 | 8.1 |
| Reinsurers' share of change in the provision for claims | **1.1** | 2.2 | 3.5 |
| Net change in the provision for claims | **4.1** | 6.7 | 11.6 |
| Commission income | **0.5** | 0.2 | 0.8 |
| Commission expense | **(2.3)** | (2.1) | (0.9) |

## 19 Related party transactions (continued)

The amounts included in the statement of financial position outstanding with Fairfax Financial holdings Limited and its affiliates as at the period end were as follows:

| | **30 June 2022 $m** | 30 June 2021 $m | 31 December 2021 $m |
|---|---|---|---|
| **Debtors arising out of reinsurance operations** | | | |
| Insurance premium receivable | **8.5** | 4.2 | 6.3 |
| Recoverable from reinsurers | **21.5** | 19.5 | 20.7 |
| **Creditors arising out of reinsurance operations** | | | |
| Payable to reinsurers | **(9.0)** | (10.4) | (5.3) |
| Unpaid claims liabilities | **(38.5)** | (44.9) | (41.1) |
| Deferred acquisition costs | **1.4** | 0.8 | 0.8 |
| Gross unearned premiums | **6.5** | (5.4) | (7.6) |
| Unearned premium recoverable from reinsurers | **(9.2)** | 6.1 | 5.0 |

**(c) Business combination**

**Camargue Underwriting Managers Proprietary Limited**
Please refer to page 167 of the Group's 2021 Annual Report.

**(d) Associated undertakings**

**Sutton Special Risk Inc.**

On 2 January 2019, Brit Insurance Holdings Limited acquired 49% of the issued shares of Sutton Special Risk Inc (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 US 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 Sutton for the period ended 30 June 2022 were $2.5m (30 June 2021: $1.8m; 31 December 2021: $4.2m). Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to Sutton as at 30 June 2022, 30 June 2021 and 31 December 2021 were not material.

**(e) Brit Group Services Limited Retirement Benefits Scheme**

On 26 May 2022, Brit Group Services Limited entered into an agreement with the Brit Group Services Limited Retirement Benefits Scheme (the "Scheme") to advance the Scheme a temporary loan to enable it to meet its short-term expense requirements. The Scheme shall pay interest at a rate equal to the Sterling Overnight Index Average plus 2.45% per annum. The loan is to be repaid in full by 30 September 2022.

Amounts recorded in the income statement relate to interest earned on the loan and in the six-month period ending 30 June 2022, were not material. As at 30 June 2022, a receivable of $1.0m was outstanding.

## Reconciliation of Key Performance Indicators and Alternative Performance Measures to the Financial Statements

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

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

| | Comment / financial statements reference | 30 June 2022 $m | 30 June 2021 $m note (i) | 31 December 2021 $m |
|---|---|---|---|---|
| (Loss)/profit for the year after tax attributable to the owners of the parent | Consolidated income statement | **(180.8)** | 207.3 | 248.5 |
| Add back: Tax adjusted amortisation | Amortisation of intangibles, adjusted by the tax rate | **4.5** | 4.4 | 9.5 |
| Add back: Tax adjusted pension credit in income statement | Defined benefits schemes' impact on income statement | **(0.8)** | (0.3) | (0.6) |
| Add back: Tax adjusted FX | FX effect for the period, adjusted by the tax rate | **8.5** | 14.2 | 17.5 |
| **Return, as adjusted for RoNTA calculation** | | **(168.6)** | 225.6 | 274.9 |
| Adjusted NTA at start of period | See 'adjusted net tangible assets' section below. | **1,740.6** | 1,436.8 | 1,436.8 |
| Less: Pension asset net of deferred tax at start of year | | **(74.0)** | (31.7) | (31.7) |
| External distributions and share issuances | Weighted adjustment to reflect distributions during the period. | **(18.7)** | - | 9.6 |
| **NTA, adjusted for RoNTA calculation** | | **1,647.9** | 1,405.1 | 1,414.7 |
| **RoNTA** | | **(10.2)%** | 16.1% | 19.4% |

Note (i): Since 31 December 2021, return on net tangible assets (RoNTA) has shown the return generated by our operations for the owners of Brit Limited before foreign exchange movements, compared to the adjusted net tangible assets deployed in our business attributable to them. The impact of the Group's defined benefit pension schemes are excluded from the calculation. The 30 June 2021 figure is represented on this basis.

Adjusted net tangible assets at the end of each year are calculated as follows:

| | Comment/financial statements reference | 30 June 2022 $m | 30 June 2021 $m | 31 December 2021 $m |
|---|---|---|---|---|
| Total equity attributable to owners of the parent | Consolidated statement of financial position | **1,700.9** | 1,803.2 | 1,912.4 |
| Less: Intangible assets | Consolidated statement of financial position | **(199.9)** | (179.8) | (205.3) |
| Net tangible assets | | **1,501.0** | 1,623.4 | 1,707.1 |
| Add back deferred tax liability on intangible assets | | **33.5** | 30.9 | 33.5 |
| **Adjusted net tangible assets** | | **1,534.5** | 1,654.3 | 1,740.6 |

### (ii) Underwriting ratios

The combined ratio is our key underwriting metric and measures the profitability of our underwriting. It shows how much of every $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. The component parts of the combined ratio are the claims ratio (consisting of the attritional claims ratio, the major loss ratio and the reserve release ratio) and the expense ratio (consisting of the commission expense ratio and the operating expense ratio). The calculations are set out below:

| | **Comment/financial statements reference** | **30 June 2022 $m** | **30 June 2021 $m** note (iii) | **31 December 2021 $m** |
|---|---|---|---|---|
| Earned premium, net of reinsurance | Note 5: Segmental information | **1,249.0** | 876.0 | 1,754.3 |
| Adjustment for loss portfolio reinsurance | Note 5: Segmental information; note (i) below | **-** | - | 344.1 |
| Adjusted earned premium, net of reinsurance | | **1,249.0** | 876.0 | 2,098.4 |
| Attritional claims | | **(646.8)** | (439.6) | (657.3) |
| Major claims | | **(39.6)** | (93.0) | (324.4) |
| Reserve releases: | | | | |
| - Resulting from the additional protection afforded by the loss portfolio reinsurance | | **-** | - | 35.0 |
| - Other | | **(8.6)** | 41.4 | 65.1 |
| Claims incurred, net of reinsurance | Note 5: Segmental information | **(695.0)** | (491.2) | (881.6) |
| Adjustment for loss portfolio reinsurance | Note 5: Segmental information; note (i) below | **-** | - | (344.1) |
| | | **(695.0)** | (491.2) | (1,225.7) |
| Acquisition costs - commissions | Note 5: Segmental information | **(298.0)** | (225.8) | (528.4) |
| Acquisition costs - other and Other insurance related expenses | Note 5: Segmental information | **(161.2)** | (144.5) | (312.8) |
| Other underwriting income | Note 5: Segmental information | **15.4** | 25.2 | 56.6 |
| (Losses)/gains on other financial liabilities | Note 5: Segmental information | **(5.3)** | (0.1) | 2.5 |
| Underwriting expenses | | **(449.1)** | (345.2) | (782.1) |
| **Underwriting profit** | | **104.9** | 39.6 | 90.6 |
| **Attritional claims ratio** | 'Attritional claims' and 'Adjustment for loss portfolio reinsurance' divided by 'adjusted earned premium, net of reinsurance'. | **51.7%** | 50.2% | 47.7% |
| **Major claims ratio** | 'Major claims' divided by 'adjusted earned premium, net of reinsurance'. | **3.2%** | 10.6% | 15.5% |
| **Reserve release ratio** | 'Reserve releases' divided by 'adjusted earned premium, net of reinsurance'. | **0.7%** | (4.7)% | (4.8)% |
| **Claims ratio** | Sum of the 'attritional claims ratio', the 'major claims ratio' and the 'reserve release ratio'.<br>Note 5: Segmental information | **55.6%** | 56.1% | 58.4% |
| **Commission expense ratio** | 'Acquisition costs – commissions' divided by 'adjusted earned premium, net of reinsurance' | **23.9%** | 25.8% | 25.2% |
| **Operating expense ratio** | 'Acquisition costs – other', 'other insurance related expenses, 'other income' and ''gains/(losses) on other financial liabilities' divided by 'adjusted earned premium, net of reinsurance' | **12.1%** | 13.6% | 12.1% |
| **Expense ratio** | Sum of the 'commission expense ratio' and the 'operating expense ratio'.<br>Note 5: Segmental information | **36.0%** | 39.4% | 37.3% |
| **Combined ratio** | Sum of the 'claims ratio' and the 'expense ratio'.<br>Note 5: Segmental information | **91.6%** | 95.5% | 95.7% |

## Reconciliation of Key Performance Indicators and Alternative Performance Measures to the Financial Statements (continued)

Note (i): This adjustment adds back the premium paid for the loss portfolio reinsurance to premium earned net of reinsurance, with an equal and opposite adjustment to net claims incurred. The Directors believe that the ratios when calculated after these adjustments present a more consistent and understandable view of the Group's performance.

Note (ii): The 2021 combined ratio excluding the impact of COVID-19 is based on the above calculation, but adjusted for COVID-19 related claims (6 month period ended 30 June 2021: $11.5m; year ended 31 December 2021: $28.2m) and COVID-19 related reserve releases (6 month period ended 30 June 2021: $1.2m; year ended 31 December 2021: $12.3m)

Note (iii): At 31 December 2021, we simplified our approach to calculating a number of our ratios, and have re-presented the 30 June 2021 figures on this basis. Underwriting ratios (combined ratio, claims ratios, commission and expense ratios) are now presented after FX movements on non-monetary items, after the impact of gains/losses on other financial liabilities and before any adjustment for non-controlling interests.

### (iii) Return on invested assets

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** | **30 June 2022 $m** | **30 June 2021 $m** | **31 December 2021 $m** |
|---|---|---|---|---|
| Share of net profit/(loss) of associates | Consolidated Income Statement | **0.8** | 0.9 | 1.7 |
| Return on financial investments and cash and cash equivalents | Note 6: Investment return | **(235.0)** | 166.3 | 167.2 |
| Return on investment related derivatives | Note 7: Return on derivative contracts | **0.8** | 1.7 | 3.0 |
| **Return on invested assets ($)** | | **(233.4)** | 168.9 | 171.9 |
| Investment in associated undertakings | Consolidated statement of financial position | **14.7** | 21.5 | 15.0 |
| Financial investments | Note 14: Financial investments | **4,173.9** | 4,084.6 | 4,015.0 |
| Derivative contracts (investment related) | Note 15: Derivative contracts | **5.6** | 7.6 | 5.9 |
| Cash and cash equivalents | Consolidated statement of financial position | **1,055.0** | 987.8 | 1,510.3 |
| **Invested assets** | | **5,249.2** | 5,101.5 | 5,546.2 |
| Opening invested assets | | **5,546.2** | 4,857.1 | 4,857.1 |
| Closing invested assets | | **5,249.2** | 5,101.5 | 5,546.2 |
| Average invested assets | | **5,397.7** | 4,979.3 | 5,201.7 |
| **Return on invested assets (%)** | Return on invested assets / Average invested assets | **(4.3)%** | 3.4% | 3.3% |

## Reconciliation of Key Performance Indicators and Alternative Performance Measures to the Financial Statements (continued)

### (iv) Capital ratio

The capital ratio measures the strength of our balance sheet 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** | **30 June 2022 $m** | **30 June 2021 $m** | **31 December 2021 $m** |
|---|---|---|---|---|
| Total equity attributable to owners of the parent | Consolidated statement of financial position | **1,700.9** | 1,803.2 | 1,912.4 |
| Less: Intangible assets | Consolidated statement of financial position | **(199.9)** | (179.8) | (205.3) |
| **Net tangible assets** | | **1,501.0** | 1,623.4 | 1,707.1 |
| Add: Deferred tax liability on intangible assets | | **33.5** | 30.9 | 33.5 |
| **Adjusted net tangible assets** | | **1,534.5** | 1,654.3 | 1,740.6 |
| Subordinated debt | | **164.0** | 186.5 | 182.9 |
| Letters of credit / contingent funding | Under our capital policy we have identified a maximum of $276.0m 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. | **276.0** | 267.5 | 276.0 |
| **Total available capital resources** | | **1,974.5** | 2,108.3 | 2,199.5 |
| **Management entity capital requirements** | The capital required by an entity for business strategy and regulatory requirements. | **(1,256.6)** | (1,419.4) | (1,581.6) |
| **Excess of capital resources over management entity capital requirements** | | **717.9** | 688.9 | 617.9 |
| **Capital ratio** | | **157.1%** | 148.5% | 139.1% |

# Company information

## Directors

| | |
|---|---|
| Mr Gordon Campbell | - Chair |
| Mr Matthew Wilson | - Group Chief Executive Officer |
| Mr Martin Thompson | - Interim Group Chief Executive Officer |
| Mr Gavin Wilkinson | - Group Chief Financial Officer |
| Mr Mark Allan | - Executive Director |
| Mr Andrew Barnard | - Non-executive Director |
| Mr Ken Miner | - Non-executive Director |
| Ms Andrea Welsch | - Non-executive Director |

## Group Company Secretary

Mr Tim Harmer

## Registered Office

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## 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

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