Brit Limited
Annual Report 2021

BRIT

writing the future

writing the future

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

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

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

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

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

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

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

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

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

Let's do it together.

2021 – a strong and resilient result

- Profit on ordinary activities before the impact of FX and tax of $247.1m.
- GWP for 2021 of $3,238.3m, an increase of 31.8% over 2020 ($2,424.4m) at constant rates of exchange.
- We achieved a combined ratio (CoR) of 95.7%[1] despite exposure to a number of major loss events and the continued impact of COVID-19, demonstrating the increased resilience of our business.
- We delivered a strong full year attritional ratio of 47.7% [1], a 4.8pps improvement over 2020.
- Major losses of $324.4m contributed 15.5pps to the combined ratio, with 2021 being the fourth-costliest year on record for natural catastrophes.
- We have maintained our record of reserve releases, which amounted to $100.1m in the year, a 4.8pps[1] reduction in the CoR, including a $35.0m reserve resulting from the additional protection afforded by a loss portfolio reinsurance contract.
- Our investment return was an excellent $171.9m or 3.3% (2020: $44.6m or 1.0%).
- Brit's capital position remains strong, with our capital surplus increasing by 81.2% during 2021. At 31 December 2021 there was a surplus of $617.9m or 39.1% (2020: $341.0m or 22.1%). Our investment portfolio remains conservatively positioned, 85.9% of the portfolio invested in cash and fixed income securities (2020: 87.0%).
- During 2021, we sold two subsidiaries, the Commonwealth Insurance Company of America and Scion Underwriting Services, realising a gain of $22.0m.
- A highly successful first year of trading for Ki, receiving a very positive reception from its broking partners and recording GWP of $395.6m.
- Market conditions continue to give cause for optimism. We achieved risk-adjusted rate increases of 12.9%, bringing the increase since 1 January 2018 to 33.1%.
- Leadership, Innovation and Distribution are at the heart of our strategy. In 2021, we have:
  - Combined our US operations under our Ambridge brand to create a single leading MGA;
  - Acquired the remaining shares of Camargue Underwriting Managers (Proprietary) Limited;
  - Continued to focus on our customers with the launch of our algorithm to enable a faster claims response to catastrophe events and our Direct Pay claims solution;
  - Piloted the first continuous binder at Lloyd's; and
  - Launched the Keel Marine Consortium.

Note 1: The calculation of the combined ratio and other ratios is set out on page 181. The calculation of underwriting ratios contains an adjustment whereby the premium paid for the loss portfolio reinsurance ($344.1m) is added back to premium earned net of reinsurance, with an equal and opposite adjustment to net claims incurred. The benefit of a $35.0m reserve release resulting from the additional protection afforded by the contract is included in the calculation. The Directors believe that the ratios when calculated after these adjustments present a more consistent and understandable view of the Group's performance.

contents

Strategic Report

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

Governance

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

Financial statements

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

Additional information

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

Glossary

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

strategic report

This Strategic Report contains information about our business and provides an insight into how we operate and our approach to sustainability and risk management. It provides context for our Financial Statements, sets out our key performance indicators (KPIs) and analyses our financial performance. All monetary figures in this report are presented in US dollar ($), unless otherwise stated.

The calculations of the combined ratio and other underwriting ratios are set out on page 181. The calculations contain an adjustment whereby the premium paid for the loss portfolio reinsurance ($344.1m) is added back to premium earned net of reinsurance, with an equal and opposite adjustment to net claims incurred. The benefit of a $35.0m reserve release resulting from the additional protection afforded by the contract is included in the calculation. The ratios for the year ended 31 December 2018, during which a similar loss portfolio reinsurance was entered into, were prepared on a consistent basis. The Directors believe that the ratios when calculated after these adjustments present a more consistent and understandable view of the Group's performance.

This Strategic Report was approved by the Board on 22 February 2022.

Martin Thompson
Interim Group Chief Executive Officer

Gavin Wilkinson
Group Chief Financial Officer

officer statements

'In early October I was asked to step into Brit as Interim CEO, following the announcement that Matthew Wilson was to take a leave of absence due to health reasons. All of us at Brit and Fairfax wish Matthew well and look forward to his return.

I am pleased to report a positive 2021 for Brit, with our underwriting performance and investment return delivering a strong overall result. Underpinning this performance was our continued successful execution against our strategy of Leadership, Innovation and Distribution. Against the ongoing backdrop of COVID-19, and the impact it continues to have on our lives, the progression of our business is testament to the dedication of our people and the unique culture Matthew and his team have created at Brit.

Our strategy delivered a strong combined ratio for the year of 95.7%. This reflected the combination of an excellent attritional ratio, strong prior year reserve releases and increased income from our third party capital management and MGA businesses. That we delivered this performance despite exposure to a number of major loss events and the continued impact of COVID-19 was particularly encouraging, demonstrating the increased resilience of our business and our firm focus on disciplined underwriting.

As well as delivering a strong underwriting result, we grew our written premium by 31.8% at constant exchange rates, to $3,238.3m. This reflects a very successful first year of trading for Ki, together with strong growth in our core direct and reinsurance books, reflecting strong market conditions and targeted growth, partly offset by planned contractions across a number of less attractive classes. Strong risk adjusted rate increases have continued with 12.9% achieved in 2021. Cumulative rate increases since 1 January 2018 now stand at 33.1%.

Championing the potential of data and technology is central to Brit's future success and Ki is the embodiment of this. Its launch has been an important focus for us and it gained excellent traction in its first year of trading writing $395.6m of premium, having received a very positive reception from its broking partners. Working closely with those partners, Ki has continued to update and enhance its underwriting platform, including the development and release of its broker API, a landmark in the Lloyd's market.

In 2021, we combined our US operations to create a single operation under the Ambridge brand. It now operates as a global MGA, managing over $600m of premium in the US and internationally. Our clients have the benefit of the well-recognised Ambridge MGA model giving them better access to products and enhanced service, and our underwriting teams are better able to capitalise on business opportunities.

Delivering a best-in-class claims service is an important focus for Brit. We have continued to support our clients when they need it most, with innovation at the heart of our Claims approach. In 2021 this has included deploying our machine learning algorithm to enable a faster claims response to catastrophe events and launching Brit Direct Pay, the first direct-to-bank card account claims payment solution in the London Market.

We continue to develop and launch new innovative products and expand our underwriting offering. We launched the Keel Marine Consortium, to transform the writing of marine war and breach call risks. We also continued to expand our e-trading portal, which provides a more efficient and convenient method of placing business. We have also been working closely with Lloyd's on the continuous binder, which went live in January 2022.

During 2021 we made a number of important appointments. We welcomed Gavin Wilkinson as Group CFO, taking over from Mark Allan who is now focused on his Ki CEO and Brit Executive Director roles. We appointed Wayne Page as our first Head of Inclusion and Diversity. Under Wayne's guidance, we have made good progress in implementing our I&D vision, introducing a number of policies, actively raising awareness amongst our colleagues and launching a number of initiatives. We also appointed of Bilge Mert as Chief Technology Officer and Kanika Chaganty as Chief Data Officer, reflecting the importance of digital and data to our strategy.

We have an important role in fighting climate change, and we believe firmly that insurance is a social good. In 2021 we published our ESG strategy and made solid progress in its implementation. This included Ki entering into a $130m sustainability linked letter of credit agreement with its banking partners.

Looking ahead to 2022, uncertainty still surrounds COVID-19, as well as wider market and inflationary concerns. Insurance markets also face other challenges such as the potential for increased frequency and severity of major loss events. However, strong compound rate rises, a continued improvement in our attritional claims ratio from underwriter actions and our clear strategy gives us continued optimism and positions us well to respond to the opportunities and challenges ahead.'

Martin Thompson
Interim Group Chief Executive Officer

'After a challenging 2020, it is very pleasing to report a strong result, reflecting the continued commitment of all our staff, the support of our majority shareholder, Fairfax, and the increasing resilience of our business. During 2021, Brit delivered a profit on ordinary activities before FX and tax of $247.1m and a profit after tax of $236.9m. Our return on net tangible assets was 19.4%.

Underwriting contributed $90.6m to the result, with a combined ratio of 95.7%. The attritional ratio for the period improved by 4.8pps to 47.7%, reflecting our good underwriting discipline, rigorous risk selection, and healthy compound rate increases.

Major losses of $324.4m contributed 15.5pps to the combined ratio, comprising Hurricane Ida ($200.5m), the Texas winter storms ($77.7m), the European floods ($18.0m) and current year COVID-19 related losses ($28.2m). The overall impact of COVID-19 related claims on our 2021 performance, after a release of $12.3m from our 2020 year loss estimates, reduced to $15.9m.

We have maintained our long-standing track record of prior year reserve releases, and as part of our reserving process, we released $100.1m, the equivalent of a combined ratio reduction of 4.8pps. These releases reflect increased certainty across a number of portfolios in both our direct and reinsurance books, together with overall net loss estimate reductions on the 2017 to 2020 catastrophe events and the reduction in our 2020 COVID-19 related loss estimates.

Our release also reflects the additional reinsurance protection afforded by a loss portfolio reinsurance we completed with RiverStone Managing Agency Limited (RiverStone) in late 2021. The agreement provides protection against potential adverse development on predominantly legacy years of account underwritten by Brit Syndicate 2987, thereby providing Brit with certainty on discontinued lines and reducing its exposure to US Casualty claims inflation.

Our investment return was $171.9m (net of fees), providing a return of 3.3%. This was driven by the strong performance across our main equity and fund portfolios as markets responded to additional stimulus measures and vaccine rollouts.

We have continued to benefit from the growth of our third party capital vehicles and our investments in MGAs. Working with our capital and distribution partners is an important part of Brit's strategy, enhancing our leadership position, strengthening our client proposition and making our expense base more efficient.

In 2021, we sold two subsidiaries, the Commonwealth Insurance Company of America and Scion Underwriting Services, realising a gain of $22.0m. Brit founded Scion, a US casualty MGA, in 2018 and it has grown to over $80m of premium in three years. In 2021, we also completed the purchase of the remaining shares in our South African coverholder Camargue Underwriting Managers (Proprietary) Limited. As part of this acquisition we revalued our initial 50% investment, made in 2016, recognising a gain of $6.1m. These gains generated by our corporate activity illustrate the embedded value we are generating from such relationships.

Our balance sheet remains strong, with adjusted net tangible assets increasing to $1,740.6m (31 December 2020: $1,436.8m). As a result, the capital surplus we hold increased by 81.2% to $617.9m or 39.1% over the Group's management capital requirement. During the period, our capital requirements increased from $1,540.3m to $1,581.6m, primarily reflecting increased requirements resulting from growth in our 2022 underwriting plans, offset by reduction in capital requirements due to increases in interest rates.

Our investment portfolio remains conservatively positioned in line with our risk appetite, with a large allocation to cash and cash equivalents ($1,549.3m or 27.9%) and fixed income securities ($3,213.8m or 57.9%). Brit's equity and fund allocation stands at $778.0m, or 14.0%. At 31 December 2021, 83.2% of our invested assets were investment grade and the duration of the portfolio was 1.5 years.

We have seen some positive market developments in 2021 and we look forward to 2022 with optimism. Challenges and uncertainty remain, but 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

Brit at a glance

Overview

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

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

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

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

The Fairfax group

Since June 2015, Brit has been a member of the Fairfax Financial Holdings Limited group (Fairfax), a Canadian company whose shares are listed on the Toronto Stock Exchange (www.fairfax.ca). At the start of 2021, Brit was 100% owned by Fairfax. On 27 August 2021, Brit issued 92,364,532 new Class A shares to OMERS Administration Corporation (OMERS), the defined benefit pension plan for municipal sector employees in the Province of Ontario, Canada, for a net contribution of $375.0m. At 31 December 2021, Fairfax owned 86.2% of Brit Limited while the remaining 13.8% was owned by OMERS. Fairfax has the option to purchase OMERS' interest in Brit at certain dates commencing in October 2023.

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

Underwriting

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

We predominantly underwrite complex, high value insurance and reinsurance risks. Insurance represents 77.2% of our GWP while treaty reinsurance represents the balance. Our largest source of business is the US Excess and Surplus lines market and the majority of our premium income is denominated in US dollars, although the risks underwritten are distributed globally.

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

Through Ki Syndicate 1618, Syndicate 2988 and Sussex Re, we provide over $1.3bn of underwriting capacity. These underwriting platforms, backed by diversified sources of capital, reflect our desire to increase our flexibility, enhance our relevance to clients and brokers, and reinforce the long-term relationships we have in the market.

We underwrite primarily in London, but have developed an extensive network of local offices in the US and have a presence in Bermuda and Japan. This enables us to access business that does not usually reach Lloyd's. We lead or are second agreement party on over 70% of the business we write through Syndicate 2987, underlining our underwriting strength and expertise.

Our platform and operations

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

Investment management

At Brit we have a significant investment portfolio comprising financial investments, investments in associates, investment-related derivatives and cash. The value of our invested assets at 31 December 2021 was $5,546.2m. The portfolio, on a look-through basis and when compared to 31 December 2020, ended 2021 with reduced holdings in fixed income securities ($3,213.8m) and equities and funds ($778.0m) and an increased allocation to cash and cash equivalents ($1,549.3m). Other invested assets totalled $5.1m.

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

Our culture, values and people

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

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

Our values are:

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

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

Our track record

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

Brit has demonstrated a strong track record of delivering growth in core business lines, disciplined underwriting and portfolio management, and innovative capital management.

In 2021, the insurance market continued to be impacted by COVID-19. It was also the fourth-costliest year on record for non-COVID related natural catastrophes and man-made events. Against this backdrop, Brit delivered a strong combined ratio of 95.7%. Major loss activity, including the impact of COVID-19, totalled $324.4m and contributed 15.5pps to our combined ratio. The impact of these events was mitigated by a strong attritional claims ratio of 47.7% and reserve releases of $100.1m (4.8pps), demonstrating the resilience of our business. Our five-year average combined ratio is 103.8%, despite the impact of COVID-19 and the extreme catastrophe years of 2017 and 2018. This year's net investment gain, after fees, was $171.9m or 3.3%, resulting in a five-year average investment return of 2.2%. Brit's result after tax was a profit of $236.9m and return on adjusted net tangible assets before FX was 19.4%.

Our combined ratio excluding the impact of COVID-19 related claims, and our attritional ratio show a clear downward trend over the last five years:

	2021 %	2020 %	2019 %	2018 %	2017 %	Five year average
Combined ratio excluding COVID-19 related claims	94.9	96.8	95.8	103.2	111.8	100.5
Attritional ratio	47.7	52.5	54.8	56.7	56.5	53.6

Any benefit arising from the effects of COVID-19 related restrictions, such as reduce volumes of commercial activity and the suspension of court hearings, is reflected within the attritional claims ratio.

Our financial strength

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

During 2021, A.M. Best reaffirmed a Financial Strength Rating of A (Excellent), with a 'stable' outlook, to Brit Reinsurance (Bermuda) Limited (Brit Re). This rating reflects Brit Re's financial strength, which A.M. Best assesses as 'very strong', and the positive impact of having Fairfax as its ultimate parent.

At 31 December 2021, we had capital resources equal to 139.1% of the management capital requirement needed to support our business and Fairfax has supported our continued capital strength allowing us to take advantage of business opportunities as they arise. Our capital strength provides the flexibility to allow us to cope with major losses while not deviating from our commitment to fund profitable expansion and to provide attractive returns.

Year	RoNTA[1,2] %	Combined ratio[1,3] %	Attritional ratio[1,3] %	Investment return[1] (net of fees) %
2021	19.4	95.7	47.7	3.3
2020	(20.1)	112.7	52.5	1.0
2019	18.9	95.8	54.8	3.6
2018	(15.2)	103.2	56.7	(2.0)
2017	1.3	111.8	56.5	4.9
2016	13.1	95.9	54.8	2.6
2015	8.5	92.2	55.6	0.1
2014	22.4	88.9	50.5	2.9
2013	25.9	85.6	51.4	2.1
2012	18.0	93.0	50.9	2.9
2011	8.0	99.0	57.7	2.4

Note 1: The calculations for 2021 and 2020 are set out on pages 180 to 182.

Note 2: RoNTA shows 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 both the return and the assets in the calculation. RoNTAs for 2011 to 2020 have been re-presented on this basis.

Note 3: Ratios for 2011 to 2020 have been re-presented, and 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.

Outlook

Looking ahead to 2022 and beyond, significant uncertainty exists for the insurance industry.

- The frequency of major events and magnitude of the resulting claims, with 2021's experience following on from those of recent years including 2017 and 2018, the most costly back-to-back years on record;
- The impact of medium loss events, with commentators attributing an increase in the frequency and severity of such events to climate change and other factors such as population growth and increasing insured values;
- Further pressures on attritional ratios continue, largely driven by the soft market years of 2017 and 2018 and by social inflation in the US Casualty market;
- The cost of doing business in the London market remains elevated. The market needs to become more efficient in processing and work with distribution partners to become more competitive in local markets;
- Despite the welcome withdrawal of some capacity, available capacity continues to exceed demand;
- In a number of markets there is increasing competition from local carriers; and
- The industry continues to face political and economic uncertainty and challenges. 2021 saw the economy start to return to normal, albeit progress was impacted by further COVID-19 related restrictions and supply chain imbalances. We anticipate lower, but still above trend growth as we go through 2022 with heightened volatility as the economy navigates higher inflation and the gradual withdrawal of monetary stimulus.

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

Preserving a strong financial position is critical to the long-term success of an insurance business. Our financial position remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. We also benefit from the financial strength of our ultimate parent, Fairfax, and from our relationships with our capital partners supporting Ki, Syndicate 2988 and the Sussex vehicles.

We also continue to take action to improve our performance and maintain our underwriting discipline and rigorous risk selection criteria in all areas of the business.

We remain focused on our strategy:

- Leadership – We strive to provide direction and authority within our business and to our industry. We are supportive of the Future at Lloyd's Blueprint and are proud to have worked with Lloyd's in a number of areas, including the continuous contracts for coverholders and the changes to the Lloyd's Europe's operating model.
- Innovation – Our purpose is to help our clients and partners thrive in an uncertain world and drive the industry forward in terms of products, services and technology, and innovation is at the heart of our strategy. BritX, our Innovation team, was launched in 2019 to create real change and action, and was the driving force behind Ki. It is aimed at targeting opportunities to disrupt our market and has identified a number of opportunities of real potential. Initiatives in 2021 included the launch of our machine learning algorithm to enable faster claims response to catastrophe events.
- Distribution – Our strategy is to deliver our products to our customers in a more efficient manner. This includes increased digital distribution and positioning ourselves closer to our customers. We have an established local distribution platform in the US, our largest market, with our operations combining in 2021 under our Ambridge brand. We also have an established Bermuda operation, which houses Brit Re (our captive reinsurer and 'A' rated reinsurance carrier), Sussex Re (our ILS vehicle) and BGSB (our reinsurance service company).

We are ready to face the future with optimism.

our underwriting

writing the future

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

Our vision

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

Our mission

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

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

A mission that requires us to do things differently.

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

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

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

Our promise

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

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

The Brit difference

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

We are a leading global specialty insurer and reinsurer, focused on underwriting complex risks. We have a keen appetite for leadership.

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

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

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

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

Providing a risk service

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

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

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

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

Underwriting and claims excellence

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

Underwriting excellence

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

We are an influential and respected presence at Lloyd's of London. With one of the largest and most diverse portfolios, we underwrite primarily through our Syndicates 2987, 2988 and Ki 1618. We are also helping lead Lloyd's market modernisation project and have met the 2021 implementation targets set by Lloyd's.

Claims excellence

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

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

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

Our claims professionals continue to help the London Market innovate and develop, with leaders from our claims team chairing several market-wide working groups. We also continue to innovate, launching our machine learning algorithm to enable faster claims response to catastrophe events and Direct Pay solution.

Broker surveys consistently highlight Brit's efficient client engagement, proactive communications and case-by-case approach, all of which underpinned our response to the pandemic. In difficult circumstances, the team demonstrated agility and empathy in managing the high volume of COVID-19 claims.

In 2021, Brit's Claims team was named 'Claims Team of the Year' at both the National Insurance Awards and the British Claims Awards . The awards recognise excellence across the sector – and are a testimony not just to the hard work of our 60-strong team, but to its collaborative and innovative approach. In 2018 and 2019 our claims team won the 'Claims Team of the Year' at the Insurance Day London Market Awards, and the 'Claims Team of the Year' at the LMA awards.

Market-Leading Innovation

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

Brit has continued to deliver market-leading innovation. 2021 was the first year of trading of Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's of London Syndicate 1618. Further details are included on page 16.

Extensive network

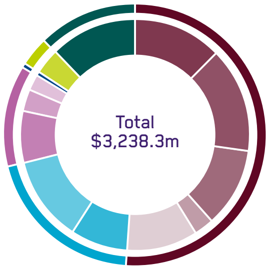
We are proud of our extensive distribution network. We have strong links with local producers, which enable us to efficiently provide long-term capacity for risks that would not otherwise reach the Lloyd's market.

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

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

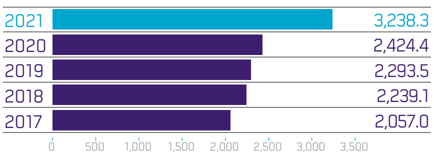
Our specialist Delegated Underwriting Management team has a reputation for its commitment to excellent customer service.

Group GWP by line of business ($m)

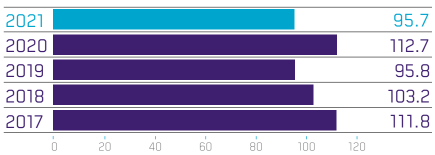


- London Market Direct, $1,663.9m
  - Financial and Professional Liability, $412.0m
  - Programmes and Facilities, $471.4m
  - Property, $363.0m
  - Ambridge, $85.2m
  - Specialty, $332.3m
- London Market Reinsurance, $639.6m
  - Casualty Treaty, $255.0m
  - Property Treaty, $384.6m
- Overseas Distribution, $407.9m
  - Ambridge Specialty Casualty, $237.9m
  - Ambridge Re, $97.7m
  - Scion (USA), $72.3m
- Discontinued, $15.9m
- Other, $115.4m
- Ki, $395.6m

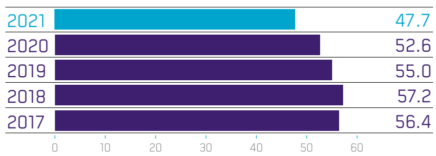
Group GWP ($m)



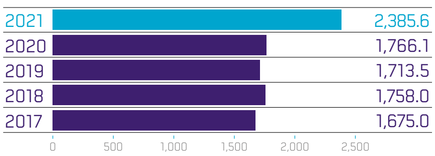
Group combined ratio (%)



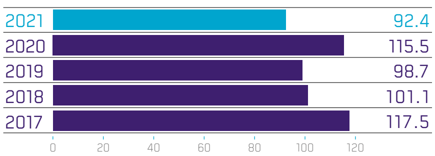
Group attritional ratio (%)



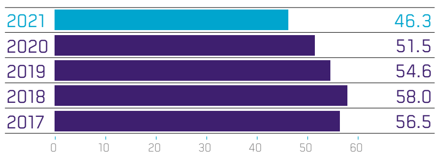
Direct underwriting GWP ($m)



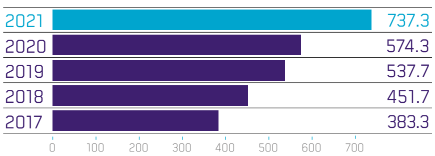
Direct underwriting combined ratio (%)



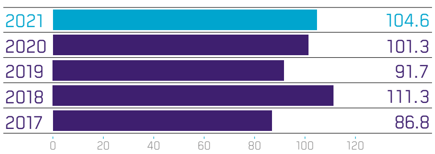
Direct underwriting attritional ratio (%)



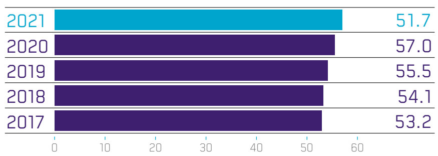
Reinsurance underwriting GWP ($m)



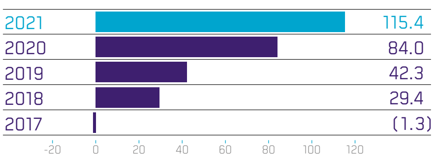
Reinsurance underwriting combined ratio (%)



Reinsurance underwriting attritional ratio (%)



Other underwriting GWP ($m)



The 2020 combined ratios excluding COVID-19 related claims were: Direct 100.9%; Reinsurance 80.6%; Group 96.8%

writing the future

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

Direct Underwriting

Fin Pro

Financial Lines

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

FI

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

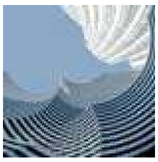
Cyber

Global Cyber Privacy and Technology
Our knowledge of the cyber risk landscape gives us a deeper understanding of the different types of cyber risk. We provide cutting-edge products to clients ranging from agile start-ups to multinational corporations.

Healthcare

Healthcare Liability
With a wealth of industry expertise, our healthcare team is committed to providing tailored insurance solutions, innovative products and related healthcare risk services, backed by exceptional service. We focus on hospitals, allied health and medical liability coverage.

US PI



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

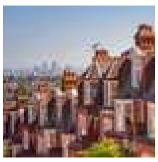
Property

Political and Credit Risk
We cover financial losses as a result of non-payment or performance of counterparties and confiscation, expropriation, nationalisation, deprivation, sequestration or forced abandonment of fixed and mobile assets in foreign countries.

Political Violence/Terrorism
We offer a range of covers including physical damage, denial of access and business interruption losses arising from perils including terrorism, strikes, riots, civil commotion, malicious damage, insurrection, revolution, rebellion, mutiny, war and civil war.

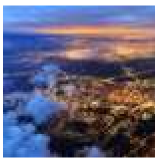
International Property
Our underwriting team offers significant breadth and depth of experience, and has access to our technical expertise in the areas such as catastrophe modelling and policy wordings. We offer a diverse range of market-leading property products throughout the world and insure a wide range of clients, diverse in size and occupancy.

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



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

Private Client
Our team has over 25 years of underwriting experience in the high net worth market, specialising in tailoring products to clients' unique needs.



Fine Art and Specie
We offer broad flexible coverage on all risks of physical loss or damage basis. We have the ability to design bespoke policies in niche market areas.

Programmes and Facilities

Accident and Health (A&H)

Personal Accident and Medical Expenses

We are a leading Lloyd's market offering a range of specialist products in the Accident and Health market, offering a broad range of products and concentrating on adding value to our clients and commercial partners. Our dynamic underwriting team is renowned for its diligence and responsiveness. We can structure bespoke coverage to a client's specific needs. We have a proven track record of working with our clients to respond to complex claims in a timely and efficient manner.

Contingency

A recognised lead market in Lloyd's, we are able to offer extensive knowledge and significant capacity. We offer three main products (event cancellation, production, non-appearance, and film and prize indemnity) and also offer specialist cover for diverse and esoteric risks.

Property Facilities

Commercial Property

Our long-established portfolio insures a variety of commercial risks throughout North America, including the Gulf and Atlantic coast territories as well as Canada.

Homeowners

We offer coverage for primary, secondary and vacant dwellings as well as condominium unit owners in both the USA and Canada. We have the ability to include flood, earthquake and landslide, separately or as a package.

Flood

We offer primary and excess flood solutions for residential, condominium and commercial risks throughout the USA. Optional loss of rents and business interruption cover is also available.

Property Financial

Where a financial institution forecloses on a property following loan default or an investor purchases a portfolio of properties, it can be covered under a real estate owned (REO) policy. We also offer mortgage impairment coverage, which protects a financial institution's owned and serviced loan portfolio against physical loss or damage where no other insurance exists and the loan is in default.

High Value Homeowners

We provide underwriting solutions to individuals, trusts or corporations owning or occupying high value or unusual residential dwellings or condominiums. Our underwriters have lead market expertise in high value or high risk personal lines exposures focusing on North America. This includes primary, secondary, seasonal, rental, vacant and under construction or renovation. Our 'HomeGuard' product can be tailored to a client's precise requirements.

Small Commercial General Liability

We write premises risk exposure, as a package with property coverage or on a monoline basis. We also write liability coverage for artisan contractors, truckers' general liability and non-trucking liability.

Direct Underwriting (continued)

Programmes and Facilities

Transport

Transportation

Commercial transportation is the lifeblood of industry and commerce across North America and we understand what it takes to help clients move their business forward. We insure commercial Automobile Physical Damage and Motor Truck Cargo across the US and Canada. We support all sizes of fleet through our network of Lloyd's brokers and coverholders.

Long Tail Facilities

Small North American Liability

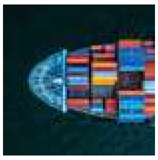
We insure small and medium-sized (SME's) enterprises in North America for errors and omissions liability through our dedicated team. Smaller enterprises are no less complex and we take the time to write risks that enable a small business to continue on growth path.

Specialty

Marine

Cargo

Our experienced and respected team provide cargo insurance for goods on land, sea, air and in storage in warehouses worldwide as well as project cargo for construction and pre-launch for satellites.



Marine Hull and War

An expert team providing market-leading Hull insurance across the Lloyd's platform. Brit insures a range of bluewater, in-land and war risks and specialist operations on a worldwide basis.

Marine Liability

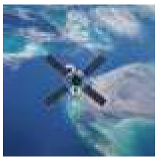
We offer specialist Marine Liability cover not limited to P&I, Charterers' Liability, Pollution, Terminal Operators' Umbrella Liability and MEL. We also offer Energy Liability with a focus on Upstream, Midstream and Onshore and Offshore Renewable Energy.

Energy

Energy

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

Space



Space

For over twenty years we have led the Brit Space Consortium, offering bespoke wordings for both launch and in-orbit risks to carefully selected clients. Our product provides cover for damage to or failure of the satellite or launch vehicle.

General Liability

EL/PL

Our experienced team works with their clients to provide liability coverage to their specific market needs. Products include Public and Products Liability, Employers' Liability and Environmental Liability.

Reinsurance

Casualty

Casualty Treaty

We have dedicated teams for North America and International based in London and a USA-based team writing Casualty Treaty and Programmes focused on the North American Market. We are therefore able to offer our clients a considerable breadth of expertise. We underwrite on a Worldwide basis and are a recognised quoting market. We are a lead market on approximately half of our business, with capacity varying according to class and source of risk. Retrocessional risks are also actively considered.

Property

Property Treaty

Our teams of specialist underwriters in both London and Bermuda operate together to provide superior service and tailored solutions to brokers and clients utilising a blend of up-to-date technical expertise, embedded modelling capability and real-world market experience. Our client base represents a significant and established cross-section of carriers writing simple policies to complex risks. Our London office is focused on catastrophe excess of loss and risk excess of loss where significant capacity can be offered. The portfolio has global scope, focussing on US, Europe, Japan and Australia. Our Bermuda office writes US property catastrophe reinsurance, retrocession and industry loss warranties.

Ki

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

Ki, the first algorithmically driven Lloyd's of London syndicate, has successfully delivered a transformational business model in Lloyd's and represents a major breakthrough in how brokers work with underwriters in the market with its digital, data driven approach. As a result, Ki has the opportunity to grow profitably.

Ki's platform has marked a step change for an industry that is yet to face significant technology-driven disruption. Google Cloud has brought to Ki enterprise-grade cloud solutions powered by innovative technologies that enable rapid transformation at scale. Ki's algorithm, developed with support from University College London and its Computer Science department, is able to evaluate Lloyd's policies and automatically quote for business through a digital platform which brokers can access directly.

Ki truly embraces all that is represented in 'The Future at Lloyd's' by bringing data, technology, innovation and artificial intelligence to the fore in the complex world of corporate and specialty underwriting. Ki is backed by its capital partners, Blackstone Tactical Opportunities (Blackstone) and Fairfax. This support will enable the business to grow rapidly to significant scale.

In its first year of trading, Ki has gained excellent traction, with GWP recorded during 2021 of $395.6m. Its full year combined ratio of 113.6% reflects first year earnings drag as it grows to scale and includes 16.0pps of catastrophe claims. Ki returned its first profit in the fourth quarter of the year.

It has had a very positive reception from the Lloyd's broking community since launch and has transacted with each of its broking partners and in all of its planned classes of business. It has also significantly expanded its market presence by onboarding the reinsurance divisions of its partner brokers.

Ki's underwriting, data and digital teams work as partners in a new organisational model for the market, with a focus on innovation and driving improvements in Ki's technology product.

Working closely with its partner brokers, Ki has continued to update and evolve the platform, further streamlining the placement of risks. Ki now has over 1,200 active users and is generating approximately 40 quotes per day.

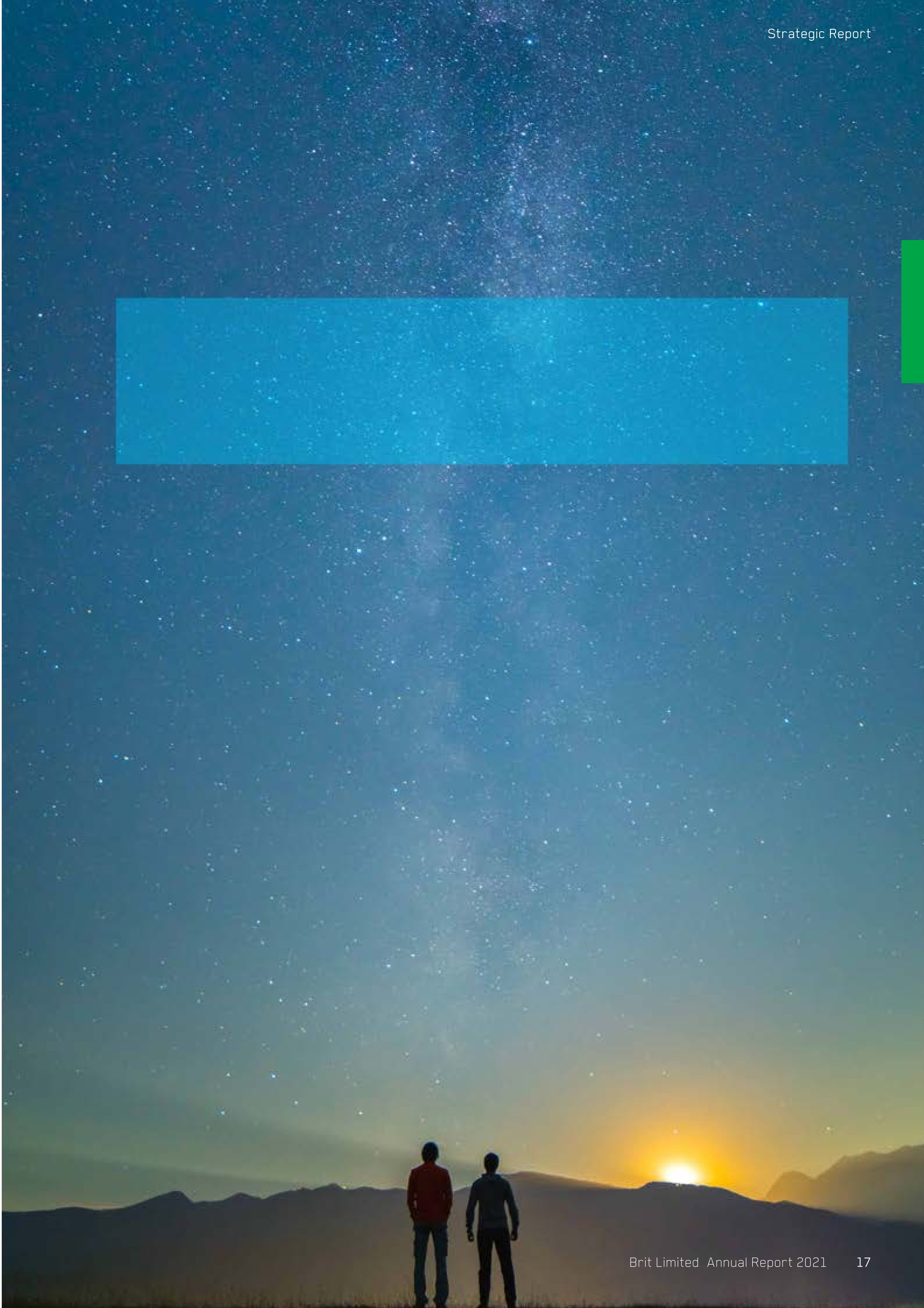
Ki also launched its API in Q1 which allows partner brokers to integrate digitally with Ki and create a totally seamless connection to Ki's algorithm to obtain quotes within their own broking platform.

In November, Ki entered into a $130m sustainability linked 'Funds at Lloyd's' letter of credit agreement with its banking partners. The facility, which is structured to support Syndicate 1618 as Ki grows, is linked to the ESG rating of Ki's 'Funds at Lloyd's' investment portfolios and Syndicate 1618's assets, with its pricing depending on the compliance of Ki's investment portfolios with ESG targets. This builds on the investment guidelines Ki has established for its third-party managers, which incorporate ESG principles and targets, and will help Ki build a sustainable footprint.

During 2021, Ki has continued to strengthen its team. In August we were pleased to welcome Richard Hodgson to the newly created role of Ki Chief Technology Officer. Richard is responsible for leading Ki's technology strategy and execution, including its engineering function, helping the business in its mission to define the future of digital trading in the market.

We look forward to 2022, and building on the success of our first year of trading, while taking advantage of the significant opportunities presented by the Ki model.

Further information can be found at **www.ki-insurance.com**.



underwriting review

2021 underwriting review

COVID-19

COVID-19 continues to have a significant impact on the insurance industry.

During 2021, our priorities have remained the safety of our employees and continuity of our service to our clients and brokers. We have maintained a high level of service to our clients and our collaborative culture has shown itself at its best. Our underwriters have been actively engaging with clients and brokers, delivering market-leading responsiveness. Our Claims team continues to service our policyholders in these challenging circumstances, proactively working with our third party adjusters to ensure claims continue to be handled promptly and to our usual high standards.

The financial impact of COVID-19 on Brit in 2021 was lower, with an overall net impact of $15.9m, or 0.8pps of the combined ratio (2020: $271.4m/15.9pps). This $15.9m loss, which was driven by Contingency (event cancellation) and Property Treaty, arose as follows:

- $28.2m (1.3pps) of net claims incurred in respect of current year losses recorded within current year claims; and
- $12.3m (0.5pps) of reserve releases in respect of 2020 year losses, recorded within prior year releases.

Any benefit arising from the effects of COVID-19 related restrictions, such as reduce volumes of commercial activity and the suspension of court hearings, is reflected within the attritional claims ratio.

COVID-19 is a highly unusual insurance event, 'earning' over a prolonged period. Estimating the overall cost is highly subjective and there remains uncertainty around losses from COVID-19. We would expect the level of uncertainty around Contingency to reduce over time, however, within areas of the account such as Casualty Treaty, Property Treaty and Open Market Property the ultimate loss outcome is still to emerge and will be influenced by factors such as coverage issues and the interpretation of contract wording.

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

In 2020, investment markets were also significantly impacted by COVID-19. In 2021, while volatility remains, the market rebound has continued. Brit's investment return for the twelve months to 31 December 2021 was a positive $171.9m (2020: $44.6m).

Major loss activity

2021 also saw a high level of non-COVID-19 related major loss activity, with an estimated $112bn of global insured losses arising from natural catastrophes and man-made events, a 13% increase over 2020, and the fourth-costliest on record. Natural catastrophes, including a winter freeze, floods, thunderstorms, heatwaves and a major hurricane accounted for $105bn of the estimate, as well as having a devastating impact on people's lives, homes and businesses. The estimated global economic loss arising from natural catastrophes and man-made events in 2021 is approximately $259bn (2020: $216bn). (Source: Swiss Re)

The main events impacting Brit in 2021 were Hurricane Ida, the Texas winter storms and the European floods. The net impact to Brit of the claims incurred from these events, before reinstatements, was $296.2m, or 14.2pps on the combined ratio (2020: $133.4m/7.8pps). They accumulate to a significant total, well above average expectations.

Rate increases

The market has continued to benefit from strengthening premium rates during 2021. Brit achieved an overall risk adjusted rate increase of 12.9% (2020: 10.6%). All Divisions achieved rate increases, with the largest increases achieved in Professional Lines, Ambridge Transactional, Ambridge Specialty Casualty, Property Open Market, Specialist Liability and Marine.

Risk adjusted rate increases since 1 January 2018 now total 33.1%, analysed across portfolios as follows:

	2018 %	2019 %	2020 %	2021 %	Total %
London – Direct	3.6)	7.1	10.7	15.3	36.7
London – RI	3.1	2.4	7.2	7.3	20.0
Overseas Distribution	4.5	6.4	14.6	13.6	39.1
Total	**3.7**	**5.9**	**10.6**	**12.9**	**33.1**

Our customers

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

The Brit claims team have maintained a focus on responding to our customers and pursuing opportunities to reduce claims lifecycle and bring claims to resolution at every opportunity through innovation and technology:

- **Launch of machine learning algorithm to enable faster claims response to catastrophe events**
  Brit continues to lead the London Market in its use of geospatial technology to advance property claims adjusting capabilities post catastrophe and in normal course claims response. By capturing high resolution images

of Brit-insured properties, we can expedite the adjusting process. In 2021, we expanded the capability by deploying a proprietary machine-learning algorithm, developed by the Company's data science team, which assesses ultra-high-resolution aerial images and data to further improve our claims service and expedite payments for customers. The algorithm allows Brit's claims team and its delegated claims adjusters to identify, triage and assign response activity even before claims are reported. It was used successfully in the wake of Hurricane Ida and the US tornados.

- **Direct Pay solution**
  We expanded adoption of the Direct Pay solution in the UK, with very favourable feedback from customers, coverholders and brokers. Direct Pay offers end customers the ability to receive claims payments securely and instantly to their bank cards. The technology and concept for Direct Pay is expected to be deployed more widely as a Future of Lloyd's solution for the market.

Our underwriting

Our overall GWP for 2021 was $3,238.3m, an increase of 33.6% over 2020 ($2,424.4m), or 31.8% at constant rates of exchange. Of this, $395.6m was generated by Ki in its successful first year of trading.

We experienced strong growth in our core London Market Direct (Financial and Professional Liability, Property, and Ambridge Transactional) and Reinsurance classes (Property Treaty), reflecting the strong rating environment and targeted growth. Growth was also strong in Overseas Distribution (Ambridge Specialty Casualty and Ambridge Re), reflecting rate increases and new business opportunities.

Our retention ratio, the proportion of our premium that renews, improved to 83.7%, (2020: 76.1%). Across all lines, we have retained our underwriting discipline and are prepared to discontinue accounts that we believe are inadequately priced or outside of our appetite.

Distribution remains central to our strategy, and we continue to build our network. In 2021 we combined our Ambridge and Brit Global Specialty USA (BGSU) operations under the Ambridge brand (see below). We also disposed of our Scion US MGA, but have retained an underwriting relationship with the team.

Our overseas offices made a significant contribution to the Group, providing 16.0% of GWP, and allowing us to access business not generally available in London. In 2021 they generated $516.7m of premium (2020: $400.6m).

- Ambridge Partners LLC, our New York based MGA, generated $420.8m of premium for Brit (2020: Ambridge and BGSU combined: $317.5m). This reflects the increase in corporate transactional activity which was impacted in 2020 COVID-19 and other factors such as Brexit uncertainty. The remodelled BGSU portfolio, now rebranded Ambridge Specialty Casualty and Ambridge Re, has also benefited from improved market conditions and increased traction.
- Our Bermuda operation continues to selectively write reinsurance business in lines and markets that we believe are well rated. Premiums generated by our Bermuda office in 2021 equated to $86.0m (2020: $83.1m).
- Camargue Underwriting Managers (Proprietary) Limited, our South African coverholder, generated $9.9m of premium for Brit in 2021.

Our business developments during 2021

During 2021 we continued to focus on our strategy of Leadership, Innovation and Distribution. Key developments have included:

- **Ki: A successful first year of trading**
  Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's of London syndicate, has gained significant traction in its successful first year of trading. Further details are included on page 16.

- **Loss portfolio reinsurance (LPR) agreement with RiverStone Managing Agency Limited**
  In November, Brit completed a LPR with RiverStone Managing Agency Limited (RiverStone). The agreement was effective from 1 October 2021, and is for predominantly legacy years of account underwritten by Brit Syndicate 2987. Under the agreement, RiverStone's Syndicate 3500 has indemnified Brit against potential adverse development in respect of net liabilities for a premium of $344.1m, thereby providing Brit with certainty on discontinued lines and reducing its exposure to US Casualty claims inflation. RiverStone will assume all claims handing responsibility for the transferring business. As a result of the additional reinsurance protection afforded by this contract, Brit was able to release $35.0m of net reserves established for prior year claims.

- **US strategy**
  During the period, Brit combined BGSU with Ambridge to create a single operation under the Ambridge brand. It will operate as a global MGA, managing 14 products and over of $600m of premium in the US and internationally.

  In considering our future strategy for the US, the rationale for bringing these two businesses together was compelling, allowing an increased focus on underwriting profit and fee generated income. By leveraging the well-recognised Ambridge MGA model to source potential third party underwriting capacity and utilise its strong market reputation, clients will benefit from better access to products and enhanced service, and our underwriting teams will be better able to capitalise on business opportunities. The additional capacity will provide the ability to offer larger line sizes, drive a reduction in operating expenses and ultimately allow the US operations to be more opportunistic and competitive in the long-term.

underwriting review

- **Continuous contracts for coverholders**
  In December Brit announced that, working closely with Lloyd's, it had piloted the first continuous binder at Lloyd's, which will go live in January 2022. Continuous contracts form a key part of the Future at Lloyd's vision for delegated underwriting. The new forms of contract aim to improve efficiencies by replacing the traditional annual renewal cycle, which can often be time and labour intensive and prove highly disruptive to a coverholder's business. The continuous contracts will be powered by a regular, data driven, review process throughout the life of the contract, this will also increase overall visibility of performance.

- **Product innovation**
  We have continued to develop and launch new products. This has included:

  - **Keel Marine Consortium:** In June, Brit launched 'Keel', a new marine consortium, to revolutionise the writing of Marine War and breach call risks. Keel is an innovative compliance and placement platform that provides instant, fully sanctioned screened and fully supported quotes for breach calls, where vessels enter high risk areas excluded from their annual protection. The new trading platform has transformed the placement of such cover, which is traditionally a time-consuming process. The platform has been well received by brokers and should allow the class to grow market share in this historically profitable segment.
  - **E-trading portal:** Brit has continued to expand its e-trading portal. The e-trading portal provides a more efficient and convenient method of placing business than traditional placement methods.

- **Camargue Underwriting Managers (Proprietary) Limited (Camargue)**
  In October, Brit completed the acquisition of the second 50% of Camargue, the South African coverholder and long standing partner of Brit, at a cost of $12.6m. Brit acquired the initial 50% of Camargue in 30 August 2016.

- **Scion Underwriting Services Inc.**
  In June, Brit completed the sale of Scion, recognising a gain on sale of $18.3m. Brit founded Scion, a US casualty MGA, in 2018 and it has grown to over $80m of premium in three years. Following the purchase of 100% of Ambridge and the subsequent restructuring of BGSU under the Ambridge brand, together we felt that a sale of Scion to an MGA aggregator would be a better fit for their strategy and ambitions. Brit will continue to provide lead capacity to Scion and as such will retain a strong coverholder relationship with the team going forward.

- **Commonwealth Insurance Company of America (CICA)**
  The sale of CICA completed in February for a consideration of $19.7m. CICA is a US admitted carrier that holds a number of licences to operate as an insurance company. Brit originally acquired CICA in April 2018 at a cost of $16.4m.

- **Continued portfolio management**
  Where classes remain challenging, we have continued to take action to improve our performance and maintained our rigorous risk selection criteria. During 2021, we ceased writing Kidnap for Ransom and the Legal Expenses account was put into run-off.

- **New in-house broker facilities**
  We have re-modelled our 40th floor to provide a broker facility. The Brit Broker Sky Lounge is a new environment with a variety of collaboration areas where we can host our brokers and clients, in an environment where they will want to meet and do business.

- **2022 business planning**
  In 2022, Lloyd's market GWP is expected to grow to £43.7bn, an increase of c.13% over planned 2021 levels. Lloyd's will also permit growth in net exposure for the first time in four years. Aggregate market stamp capacity is set to increase by 7.3%, with 58% of established Syndicates allowed to grow.

  For 2022, Brit (Syndicates 2987, 2988 and 1618 collectively) has a stamp capacity of £2,513m, a 17.3% increase over 2021. This makes Brit one of the fastest growing large managing agents in the market, demonstrating the value and strength of Brit to the Lloyd's Market.

  Syndicate 2987's GWP is planned to grow by 11.8% over its current 2021 year of account forecast. As in previous years, we continue to actively manage the portfolios by segmenting classes into 'high performing', 'core growth', 'core new initiatives', 'core opportunistic' and 'portfolio management'. Growth (excluding RARC) is driven primarily by the 'high performing', 'core growth' and 'core opportunistic' segments, while the largest increases in RARC are targeted on the weakest performing segments of the portfolio.

  Syndicate 2988's GWP is planned to grow by 26.3% over its current 2021 year of account forecast. The 2022 plan promotes continued diversification of the Syndicate's portfolio, by growing the 'high performing', 'core growth' and 'core opportunistic' segments in such a way as to generate a better balance between Property, Specialty and Casualty line. Growth in Syndicate 2988 premium is largely a function of greater penetration into Syndicate 2987's business plus selective growth of existing business.

  Syndicate 1618's GWP is planned to grow in its second year of trading. The first year of trading has been a great success and its plan for 2022 reflects its rapid progress to date and the significant opportunity that the Ki model presents. Growth is planned to come from a combination of both its syndicate's renewal portfolio and greater penetration into the follow market.

financial performance review

Key Performance Indicators

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

Our four KPIs show the returns that we are generating, the performance of our underwriting activities, our investment portfolio and our financial strength. The development of our KPIs over the five years (set out below) reflects our focus on underwriting performance and improving underwriting market conditions, together with the challenges presented by the increased frequency and severity of catastrophe events, COVID-19, and the increase in investment market volatility.

A reconciliation of each KPI to the amounts presented in the financial statements, where relevant, is included in the Annual Report and Accounts starting on page 180 and definitions of each of our KPIs are included in the Glossary starting on page 184.

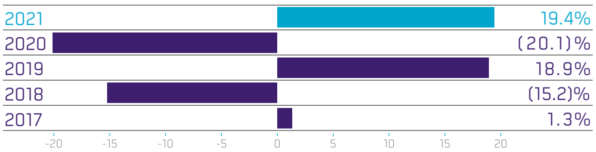
For 2021, we have simplified our approach to calculating a number of our ratios, and have re-presented previous years' ratios on this basis:

- 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 contain an adjustment whereby the premium paid for the loss portfolio reinsurance ($344.1m) is added back to premium earned net of reinsurance, with an equal and opposite adjustment to net claims incurred. The benefit of a $35.0m reserve release resulting from the additional protection afforded by the contract is included in the calculation. The Directors believe that the ratios when calculated after these adjustments present a more consistent and understandable view of the Group's performance.
- Return on net tangible assets (RoNTA) now represents the profit/(loss) for the year after tax attributable to the owners of Brit Limited (adjusted for amortisation net of tax, defined benefit pension scheme charges/credits net of tax, and foreign exchange movements net of tax), divided by the total equity attributable to the owners of Brit Limited at start of year (less intangible assets net of deferred tax, and pension asset net of deferred tax), adjusted on a time weighted basis for any distributions and shares issued during the year.

Overall performance

Return on net tangible assets (RoNTA)

19.4%



RoNTA shows 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 both the return and the assets in the calculation. RoNTAs for 2017 to 2020 have been re-presented on this basis.

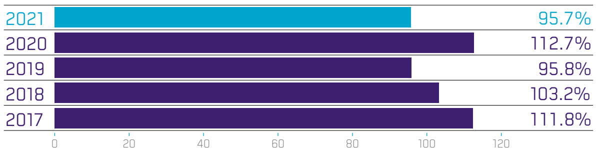
In 2021, our RoNTA was 19.4%, reflecting a strong attritional performance, solid prior year reserve releases, an excellent investment return and gains on disposals of two subsidiaries, partly offset by major loss activity and the continued impact of COVID-19.

This return resulted in a five-year average RoNTA of 0.9%. RoNTA for 2021 after foreign exchange movements was 18.2% (2020: (19.6)%).

Underwriting

Combined ratio

95.7%



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.

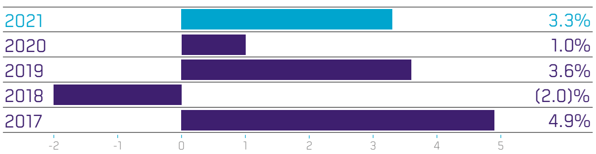
Our combined ratio in 2021 was 95.7%, including 14.2pps in respect of major losses and 1.3pps in respect of current year COVID-19 related claims, partly offset by 4.8pps of reserve releases. Over the past five years, we have delivered an average combined ratio of 103.8% despite the impact of COVID-19 and extreme catastrophe years of 2017 and 2018.

Excluding COVID-19 related claims, our five-year average combined ratio was 100.5%.

Investment management

Investment return

3.3%



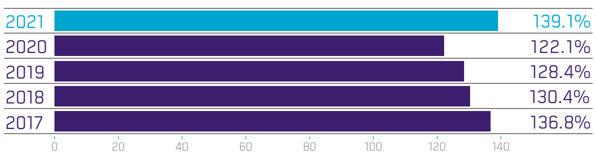
We assess the performance of our investment portfolio by comparing the return generated by our invested assets, net of external investment related expenses, against the average value of those invested assets.

Our investment strategy takes a long-term view of markets, which can lead to significant variations in our year-on-year return figures. Over the past five years, we have delivered an average investment return of 2.2%.

Capital management

Capital ratio

139.1%



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

Our financial position remains strong. At 31 December 2021, Group capital resources totalled $2,199.5m giving surplus management capital of $617.9m (2020: $341.0m), or 39.1% (2020: 22.1%) over our Group management capital requirement. During the period, our capital requirements increased from $1,540.3m to $1,581.6m, primarily reflecting increased requirements resulting from growth in our 2022 underwriting plans, offset by reduction in capital requirements due to increases in interest rates.

financial performance review

Overview of Results

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

	2021 $m	2020 $m	2019 $m	2018 $m	2017 $m
Gross written premium	**3,238.3**	2,424.4	2,293.5	2,239.1	2,057.0
Net written premium	**1,998.3**	1,775.6	1,656.2	1,482.4	1,530.8
Net earned premium (Note 1)	**1,754.3**	1,710.7	1,641.9	1,468.0	1,536.8
Underwriting result	**90.6**	(217.3)	69.7	(52.4)	(181.5)
Return on invested assets, net of fees	**171.9**	44.6	148.1	(83.3)	204.2
Gain on deconsolidation of subsidiaries	**19.8**	–	–	–	–
Gain on business combination	**6.1**	–	10.2	–	–
Corporate expenses	**(44.7)**	(23.6)	(20.3)	(20.0)	(24.0)
Finance costs	**(18.3)**	(23.6)	(23.7)	(18.8)	(17.1)
Other items	**21.7**	(15.6)	0.3	(3.4)	2.6
Profit/(loss) on ordinary activities before tax and FX	**247.1**	(235.5)	184.3	(177.9)	(15.8)
FX movements	**(19.8)**	5.0	2.0	(12.4)	21.3
Profit/(loss) on ordinary activities before tax	**227.3**	(230.5)	186.3	(190.3)	5.5
Tax	**9.6**	(1.5)	(6.4)	23.8	16.0
Profit/(loss) for the year after tax	**236.9**	(232.0)	179.9	(166.5)	21.5

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

Group performance

Our 2021 result reflected premium growth, strong attritional performance, solid prior year reserve releases, good investment return and a gain on the deconsolidation of subsidiaries, partly offset by major loss activity and the continued impact of COVID-19. We also saw a further improvement in market conditions. 2020 was dominated by COVID-19 and other major losses.

The result on ordinary activities for the year before tax and FX was a profit of $247.1m (2020: loss of $235.5m), profit before tax was $227.3m (2020: loss of $230.5m) and profit after tax was $236.9m (2020: loss of $232.0m). Return on adjusted net tangible assets (RoNTA), excluding the effects of FX, was 19.4% (2020: (20.1)%). RoNTA for 2021 after including foreign exchange movements was 18.2% (2020: (19.6)%).

Our adjusted net tangible assets at 31 December 2021 totalled $1,740.6m (2020: $1,436.8m).

Performance measures

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

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

A reconciliation of each performance measure to the amounts presented in the financial statements is included in the Annual Report and Accounts starting on page 180 and a definition of each measure is included in the Glossary starting on page 184. The calculations of the claims and underwriting expense related measures include the adjustment for the loss portfolio reinsurance contract as referenced on page 19.

Underwriting

Overview

Our underwriting result for the year was a profit of $90.6m (2020: loss of $217.3m) and our combined ratio was 95.7% (2020: 112.7%). The premiums, claims and expenses components of this result are examined below.

Premiums written

Premium growth	2021 $m	2020 $m	Growth %	Growth at constant FX rates %
London Market Direct	**1,663.9**	1,344.7	23.7	21.7
London Market Reinsurance	**639.6**	533.4	19.9	18.8
Overseas Distribution	**407.9**	327.6	24.5	24.5
Discontinued underwriting	**15.9**	127.8	(87.6)	(88.0)
Other underwriting	**115.4**	90.9	27.0	25.4
	2,842.7	2,424.4	17.3	15.7
Ki	**395.6**	–	–	–
Group total	**3,238.3**	2,424.4	33.6	31.8

Note 1: The 2020 figures have been re-analysed to reflect the changes to the underwriting class monitoring structure introduced in 2021.

Premiums by division and class		2021 $	2020 $
London Market Direct	Financial and Professional Liability	**412.0**	260.1
	Programmes and Facilities	**471.4**	461.9
	Property	**363.0**	287.7
	Ambridge Transactional	**85.2**	27.8
	Specialty	**332.3**	307.2
		1,663.9	1,344.7
London Market Reinsurance	Casualty Treaty	**255.0**	242.6
	Property Treaty	**384.6**	290.8
		639.6	533.4
Overseas Distribution	Ambridge Specialty Casualty	**237.9**	193.7
	Ambridge Re	**97.7**	69.1
	Scion (USA)	**72.3**	64.8
		407.9	327.6
Discontinued (Note 2)	Discontinued	**15.9**	127.8
Other (Note 3)	Other	**115.4**	90.9
Ki		**395.6**	–
Total		**3,238.3**	2,424.4

Note 1: The 2020 figures have been re-analysed to reflect the changes to the underwriting class monitoring structure introduced in 2021.

Note 2: 'Discontinued Underwriting' represents lines of business in run-off.

Note 3: 'Other Underwriting' comprises the Group's special purpose vehicles and Brit's share of Syndicate 2988.

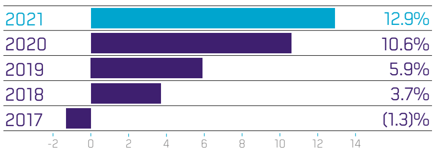
Gross written premium (GWP) increased by 33.6% to $3,238.3m (2020: $2,424.4m). At constant exchange rates, the increase was 31.8%. London Market Direct business increased by 23.7% to $1,663.9m (2020: $1,344.7m), London Market Reinsurance increased by 19.9% to $639.6m (2020: $533.4m), Overseas Distribution increased by 24.5% to $407.9m (2020: $327.6m) and Other Underwriting increased by 27.0% to $115.4m (2020: $90.9m). Ki, in its first year of underwriting, gained significant traction, writing $395.6m.

financial performance review

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

- **Current year premiums:** In addition to the increase attributable to Ki, we experienced growth in our core London Market Direct (Financial and Professional Liability, Property, and Ambridge Transactional) and Reinsurance classes (Property Treaty), reflected the strong rating environment and targeted growth as we capitalise on market opportunities. These increases were partially offset by our withdrawal from a number of underperforming classes, and the non-renewal of certain accounts due to poor performance or pricing inadequacy. Within Overseas Distribution, premium growth was seen in Ambridge Specialty Casualty and Ambridge Re, reflecting rate increases and new business opportunities.
- **Prior year premium development:** The book again experienced favourable development on prior years, at a similar rate to that experienced in 2020. This resulted in a year-on-year increase of $6.5m.
- **Foreign exchange:** The impact of foreign exchange resulted in a $32.7m year-on-year increase in premium, which reflects the movement during 2021 of the US dollar against a number of currencies in which the Group writes business.

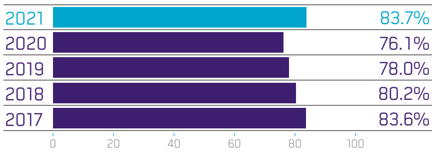
Premium rate change

Measure	Commentary	Track record
Risk adjusted rate change	The risk adjusted rate change (RARC) shows whether premium rates are increasing, reflecting a hardening market, or decreasing, reflecting a softening market. A hardening market is one indicator of increasing profitability. The data reflects internal estimates by Brit's underwriters, based on available year-on-year underlying renewal data after allowing for changes to terms and conditions. Generally, no adjustment is made to the figures to reflect the impact of inflation beyond the level of inflation in the underlying exposure measure used in pricing. In 2021, we achieved an overall RARC of 12.9%, bringing the RARC since 1 January 2018 to 33.1%.	**Risk adjusted rate change** (%) 

2021 saw a continued positive rate environment, building on that of 2020, 2019 and 2018, with an overall risk adjusted premium rate increase of 12.9% across the portfolio (2020: 10.6%), bringing the total increase since 1 January 2018 to 33.1%.

In 2021, London Direct increased by 15.3% (2020: 10.7%), London Reinsurance by 7.3% (2020: 7.2%) and Overseas Distribution by 13.6% (2020: 14.6%). All Divisions achieved rate increases, with the largest increases achieved in Professional Lines, Ambridge Transactional, Ambridge Specialty Casualty, Property Open Market, Specialist Liability and Marine.

Retention rate

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

Our retention rate for the period was 83.7% (2020: 76.1%). The increase reflects the action we have taken to improve our performance by discontinuing underperforming business lines over the last four years and increased lines on renewals through utilisation of its broker relationships and market presence with increased lead positions.

Outwards reinsurance

Our reinsurance expenditure in 2021 was $1,240.0m or 38.3% of GWP (2020: $648.8m/26.8%), an increase of $591.2m.

This increase primarily reflects a loss portfolio reinsurance contract with RiverStone Managing Agency Limited (for and on behalf of Lloyd's syndicate 3500). Under the terms of this reinsurance, Brit ceded predominantly legacy years of account on certain classes and certain discontinued classes of business underwritten by Brit Syndicate 2987, for a premium of $344.1m.

Excluding this transaction, reinsurance expenditure was $895.9m or 27.7% of GWP, representing an increase of $247.1m over 2020. This increase reflects the impact on higher premium levels on adjustable excess of loss contracts and proportional reinsurance treaties, a new XL contract supported by the Brit-sponsored Cat Bond issued in late 2020 by a segregated cell of Sussex UK, additional Cyber protections and the reinsurance programme for Ki.

Net earned premium

Net earned premium (NEP) in 2021 increased by 2.5% to $1,754.3m (2020: $1,710.7m). At constant exchange rates, the increase was 1.2%. London Market Direct business increased by 19.8% to $1,111.2m (2020: $927.5m), London Market Reinsurance increased by 8.8% to $392.4m (2020: $360.7m), Overseas Distribution decreased by 75% to $60.0m (2020: $239.8m), Other Underwriting increased by 57.3% to $98.5m (2020: $62.6m) and Discontinued decreased by 161.1% to $(73.4)m (2020: $120.1m). Ki's first year NEP was $165.6m. These movements reflected premium growth, partly offset by the additional reinsurance spend.

Excluding the impact of the loss portfolio reinsurance contract, which impacted Overseas Distribution and Discontinued, NEP increased by 22.7%, to $2,098.4m.

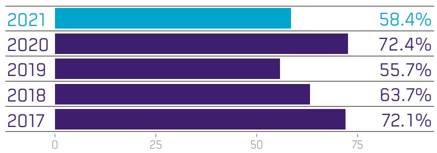
Claims

Measure | Commentary | Track record

Claims ratio

The claims ratio measures the performance of the whole underwriting book, encompassing risks written in the current year and in prior years.

Claims ratio (%)



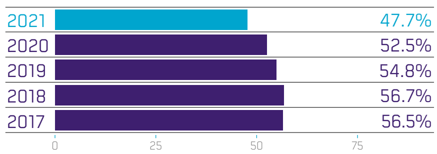
The claims ratio can be further analysed into its underlying components, as follows:

Measure | Commentary | Track record

Attritional claims ratio

The attritional claims ratio measures the performance of the underlying underwriting book by measuring the effect of attritional claims.

Attritional claims ratio (%)

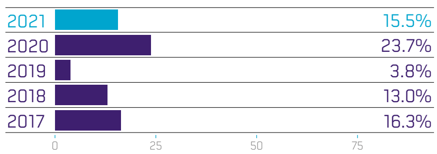


Major claims ratio

The major claims ratio measures the effect of claims arising from major losses on our performance.

The 2021 ratio reflects the impact of catastrophe events of 14.2pps (2020: 7.8pps) and COVID-19 related claims of 1.3pps (2020: 15.9pps).

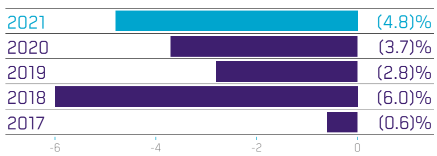
Major claims ratio (%)



Reserve release ratio

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

Reserve release ratio (%)



financial performance review

Our underlying claims performance in 2021 was strong, with a reduction in our attritional claims ratio of 4.8pps to 47.7% (2020: 52.5%). This reflects favourable underlying claims experience across our London Market Direct portfolio (principally Property, Specialty and Programs and Facilities) and the effect of strong compound rate increases, combined with a change in mix as we target growth on our high-performing segments while taking remedial action on more marginal business.

The financial impact of COVID-19 related claims on Brit was significantly lower in 2021, with current year loss estimates of $28.2m (2020: $271.4m) being reported within major losses in the period. In 2021, COVID-19 predominantly impacted our Contingency (Event Cancellation) book. These losses have driven an increase of 1.3pps (2020: 15.9pps) in our combined ratio.

Any benefit arising from the effects of COVID-19 related restrictions, such as reduce volumes of commercial activity and the suspension of court hearings, is reflected within the attritional claims ratio.

Major losses	2021 $m	2020 $m
Texas winter storms	**77.7**	–
Hurricane Ida	**200.5**	–
European floods (Bernd)	**18.0**	–
Nashville tornado	**–**	13.7
US civil unrest	**–**	11.7
Hurricane Laura	**–**	65.4
Hurricane Sally	**–**	27.1
Hurricane Zeta	**–**	15.5
Total before COVID-19 related losses	**296.2**	133.4
COVID-19 related losses	**28.2**	271.4
Total	**324.4**	404.8
CoR	**15.5%**	23.7%

As part of our standard reserving process, we released a $100.1m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 4.8pps (2020: $63.4m/3.7pps), maintaining trend of reserve releases since we started disclosing them in 2004.

The 2021 release reflected:

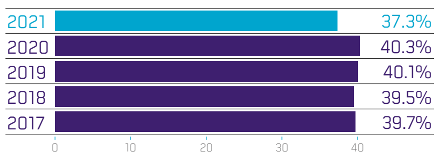
- Favourable claims experience across recent underwriting years within London Market Direct (principally Property, Specialty and Ambridge Transactional) and London Market Reinsurance (across both Casualty and Property Treaty);
- A release of $12.3m in respect of 2020 COVID-19 related claim estimates;
- Continued overall net favourable development of other prior year catastrophe events; and
- A release of $35.0m reflecting the additional reinsurance protection afforded by the loss portfolio reinsurance with RiverStone.

Our financial position remains strong and we continue to operate a robust reserving process.

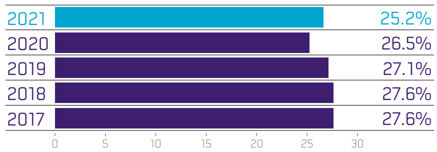
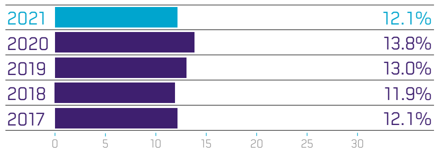
Underwriting expenses

Our underwriting expense ratio was 37.3% (2020: 40.3%).

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



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

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

Commission costs were $528.4m and the commission expense ratio was 25.2% (2020: $453.3m/26.5%). This $75.1m increase was driven by the increase in NEP, including Ki ($42.8m), while the decrease in the ratio principally reflects a change in business mix towards lower commission business and a continued drive to reduce overall acquisition costs.

Our expenses are analysed below.

Operating expense ratio

Our operating expense ratio decreased to 12.1% (2020: 13.8%). The ratio consists of the following components, each of these is discussed in the sections below.

- Underwriting related operating expenses for 2021 were $312.8m and contributed 14.9pps to the operating expense ratio (2020: $259.3m/15.2pps).
- Underwriting related fee and commission income totalled $56.6m, reducing the operating expense ratio by 2.7pps (2020: $29.7m/1.7pps). These amounts are included in the expense ratio as the expenses incurred in generating these fees are included within underwriting expenses.
- Gains on other financial liabilities were $2.5m, reducing the operating expense ratio by 0.1pps (2020: losses of $6.0m, increasing the ratio by 0.4pps). 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 2021 increased by 26.4% to $357.5m (2020: $282.9m). At constant rates of exchange, the increase was 20.4%, reflecting that the majority of our expense base is in Sterling. The main contributors to this increase were staff costs, reflecting headcount growth, bonus accrual, and regulatory charges and levies. These increases also include the costs resulting from the launch of Ki.

At 31 December 2021, Group headcount was 854 (2020: 748). The increase was primarily due to the launch of Ki, targeted underwriting expansion in favourable market conditions, the acquisition of Camargue and the related growth of support functions. These were partly offset by reductions resulting from the withdrawal from certain classes of business and the sale of Scion.

financial performance review

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

Disclosure of operating expenses	2021 $m	2020 $m
Acquisition costs	**179.9**	145.4
Other insurance related expenses	**132.9**	113.9
Total insurance related operating expenses	**312.8**	259.3
Other operating expenses	**44.7**	23.6
Total operating expenses	**357.5**	282.9

Other income

Other income totalled $78.3m (2020: $14.1m), as set out below:

Other income	2021 $m	2020 $m
Fee and commission income (Note 1)	**56.6**	29.7
Change in value of ultimate parent company shares (Note 2)	**21.7**	(15.6)
Total other income	**78.3**	14.1

Note 1: Total fee and commission income is included within our underwriting result and our combined and expense ratios.

Note 2: Change in value of ultimate parent company shares is included within our corporate result.

Fees and commissions generated by the Group's underwriting management activities increased in 2021 by 90.6% to $56.6m (2020: $29.7m). The increase reflects increased business written by our MGA Ambridge Partners LLC, increased third party fee income in respect of Syndicate 2988 and consortia, and the inclusion of income generated by Camargue following its acquisition in 2021.

The generation of such underwriting-related income, derived from the management of third party underwriting capital and from our MGAs placing business with third parties, remains an important part of Brit strategy and has the benefit of assisting Brit in managing its expense base.

Included in other income was a gain of $21.7m in respect of the change in value of shares held by Brit in its ultimate parent.

Gains on other financial liabilities

The statement of financial position of the Group includes liabilities representing third party investors' share in structured undertakings consolidated by the Group. In 2021, the structured undertaking is Sussex Capital and in 2020 were Sussex Capital and Versutus II. Changes in the value of these liabilities during the year are recorded in the Group's consolidated income statement as '(losses)/gains on other financial liabilities'.

In 2021, the income statement impact was a gain of $2.5m (2020: loss of $6.0m). Brit allocates these gains/losses to its underwriting result.

Return on invested assets

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

The return on our invested assets was $171.9m or 3.3% (2020: $44.6m/1.0%). This result is analysed below:

Investment return	2021 $m	2020 $m
Income	**58.4**	73.2
Realised gains	**59.4**	7.5
Unrealised gains/(losses)	**63.6**	(11.6)
Investment return before fees	**181.4**	69.1
Investment management fees	**(14.2)**	(12.6)
Investment return, net of fees	**167.2**	56.5
Investment related derivative return	**3.0**	(13.9)
Return on associated undertakings	**1.7**	2.0
Total return	**171.9**	44.6
Total return	**3.3%**	1.0%

Return on invested assets (net of fees)

Year	%
2021	3.3
2020	1.0
2019	3.6
2018	(2.0)
2017	4.9

Equities rallied over the year, generating $125.9m (2020: loss of $42.5m) of return as markets responded to additional stimulus measures and the COVID-19 vaccine rollout. The return on funds was also positive for the year, with a gain of $59.8m (2020: loss of $32.8m).

The fixed income portfolio generated a small loss of $4.8m (2020: gain of $141.5m), as income was offset by capital losses. The short duration position benefited the portfolio as yields rose towards the end of the year. The US government bond yield curve rose by up to 90 basis points across the yield curve over the year. Investment grade credit spreads widened marginally while high yield spreads narrowed as investors responded to positive growth early in the period amid the vaccine rollout, higher inflation expectations and the more hawkish tone from the US Federal Reserve Bank towards year end.

Cash and cash equivalents generated $0.5m (2020: $2.9m). Our approach to cash management during the year has, and continues to be, to limit the amount of operational cash and to maximise amounts held within short-term government bills.

At 31 December 2021, the running yield (expressed as yield as a percentage of invested assets) of our total portfolio was 0.9% (2020: 0.6%). This has increased over 2021 in line with the increase in the yield curve in the US and continues to represent a challenging environment for insurance groups.

Our share of our associated undertakings' net profit was $1.7m (2020: $2.0m).

- Sutton Special Risk Inc., a leading Canada-based managing general underwriter specialising in Accident & Health business in which Brit acquired a 49% share on 8 January 2019, contributed $1.2m (2020: $1.0m) to this return; and
- Camargue Underwriting Managers Proprietary Limited, a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa in which Brit held a 50% share, contributed $0.5m to this return (2020: $1.0m). On 4 October 2021, Camargue became a 100% subsidiary of the Group and ceased to be an associated undertaking.

Gain on deconsolidation of subsidiaries

	2021 $m	2020 $m
Commonwealth (CICA)	**3.7**	–
Scion Underwriting Services Inc	**18.3**	–
North America Property Insurance Series 2017 Account A-3	**(2.2)**	–
Total	**19.8**	–

- **Commonwealth (CICA):** On 5 February 2021, Brit completed the sale of CICA, realising a gain on disposal of $3.7m. Brit originally acquired CICA in April 2018.
- **Scion Underwriting Services Inc. (Scion):** On 28 June 2021, Brit completed the sale of Scion, recognising a gain on sale of $18.3m.
- **North America Property Insurance Series 2017 Account A-3 ('Account A3') (a segregated account within Versutus Limited):** From 25 March 2021, Account A3 was deconsolidated by virtue of Brit no longer having an economic interest in it. A loss on deconsolidation was realised of $2.2m.

Gain on a business combination

On 4 October 2021 the Group acquired the remaining 50% of the share capital of Camargue. At the acquisition date the investment in associate was derecognised from the balance sheet of the Group and remeasured at fair value for the purposes of acquisition accounting under IFRS 3. This process resulted in the recognition of a gain of $6.1m (2020: nil).

Foreign exchange

As explained on page 37, we manage our currency exposures to mitigate the impact on solvency rather than to achieve a short-term impact on earnings. We experienced a foreign exchange loss of $19.8m in 2021 (2020: gain of $5.0m), 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.

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

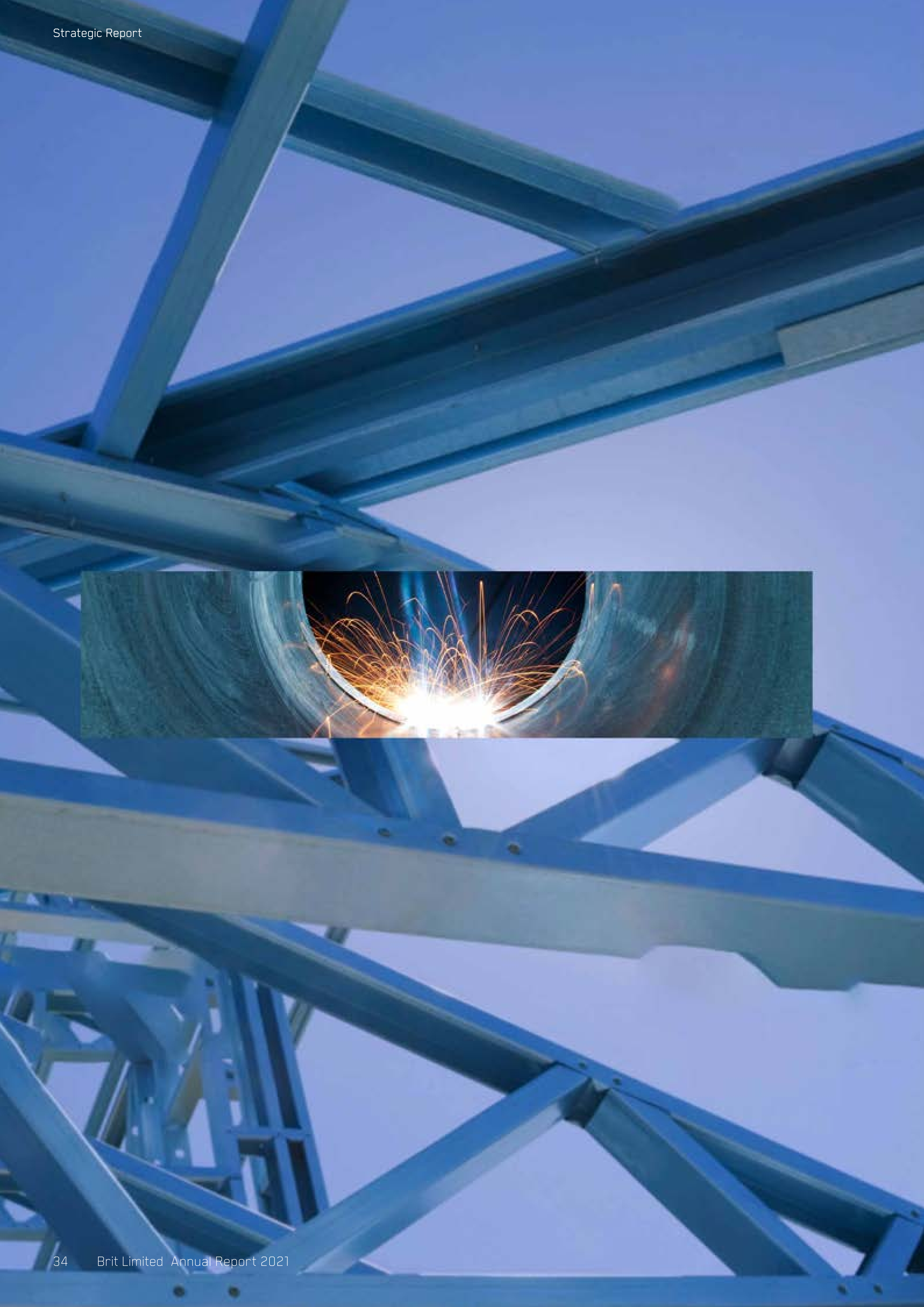
Foreign exchange gains and (losses)	2021 $m	2020 $m
Net foreign exchange (losses)/gains	**(1.1)**	(7.8)
(Losses)/gains on derivative contracts – FX related instruments	**(18.7)**	12.8
	(19.8)	5.0

Tax

Our tax on ordinary activities for 2021 resulted in a tax credit of $9.6m (2020: tax charge of $1.5m), based on a Group profit before tax of $227.3m (2020: loss before tax of $230.5m). This credit comprised a current tax charge of $10.0m and a deferred tax credit of $19.6m. The deferred tax credit reflects the change in the UK tax rate from 19% to 25% from 1 April 2023 in accordance with the Finance Act 2021 which was substantially enacted on 24 May 2021.

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

The 2021 Group rate varies from the weighted average rate in those jurisdictions due to a number of factors. The principal factors are an increase of $27.4m in the unrecognised deferred tax asset in respect of undeclared Lloyd's syndicate years of account, and the impact of the change in the UK tax rate used for the calculation of deferred taxes, from 19% for brought forward balances to 25% for carried forward balances due to the increase in the UK corporation tax rate to 25% from 1 April 2023 which was substantively enacted on 24 May 2021. The rate is further influenced by the impact of utilisation of US losses which were previously unrecognised, exempt income such as dividend income, disallowable expenses and by non-UK taxes arising in our Lloyd's syndicates.



financial position and capital strength

Financial position

At 31 December 2021, our adjusted net tangible assets totalled $1,740.6m (2020: $1,436.8m).

Summary consolidated statement of financial position

	2021 $m	2020 $m
Assets		
Intangible assets	**205.3**	181.2
Reinsurance contracts	**2,291.2**	1,764.1
Insurance and other receivables	**1,615.3**	1,302.0
Financial investments, investments in associated undertakings and cash	**5,540.3**	4,852.8
Assets classified as held for sale	**–**	17.8
Investment related derivatives	**6.2**	4.3
FX related derivatives	**8.9**	10.6
Other assets	**551.7**	414.9
Total assets	**10,218.9**	8,547.7
Liabilities		
Deferred tax on intangible assets	**33.5**	25.4
Insurance contracts	**6,532.9**	5,813.0
Borrowings	**227.9**	314.5
Investment related derivatives	**0.3**	–
FX related derivatives	**12.2**	9.2
Insurance and other payables	**1,184.1**	620.7
Other liabilities	**81.4**	50.6
Total liabilities	**8,072.3**	6,833.4
Net assets	**2,146.6**	1,714.3
Adjusted net tangible assets (Note 1)	**1,740.6**	1,436.8

Note 1: Calculated as net assets, less intangible assets net of the deferred tax liability on those intangible assets, less non-controlling interest, comprising of $233.5m attributable to Blackstone and $0.7m attributable to Riverstone Holdings Limited.

Of our net assets of $2,146.6m at 31 December 2021, $1,912.4m (2020: $1,592.6m) were attributable to the owners of Brit Limited, while $234.2m (2020: $121.7m) were attributable to non-controlling interests. The non-controlling interests, comprising of $233.5m attributable to Blackstone and $0.7m attributable to Riverstone Holdings Limited.

On 4 October 2021, the Brit Group acquired the remaining 50% of the issued shares of Camargue. Prior to that date, Brit's investment in Camargue was recorded as an investment in associated undertaking and after that date as a subsidiary. Following the acquisition, an exercise to allocate the purchase price under IFRS 3 was performed, including the identification and valuation of acquired intangible assets. The findings of this exercise included the identification of $8.2m of acquired intangible assets and $16.4m of goodwill, which are included within intangible assets at 31 December 2021 in the table above.

In addition to the result recognised through the consolidated income statement, the other movements in our net assets included defined benefit pension scheme related gains and charges (2021: $12.2m net gain; 2020: $3.7m net loss); changes in unrealised foreign currency translation gains on foreign operations (2021: $1.1m net loss; 2020: $2.3m gain); issuance of share capital (2021: $406.1m; 2020: $524.0m); dividends paid (2021: $375.0m; 2020: $20.6m); recognition of a surplus net of deferred tax on the acquisition of a defined benefit pension scheme (2021: $28.5m; 2020: nil) and investment in a subsidiary by non-controlling interests (2021: $124.1m; 2020: $124.4m).

Capital strength

Our financial position remains strong, with our capital surplus increasing by 81.2% in the year. At 31 December 2021, Group capital resources totalled $2,199.5m (2020: $1,881.3m), giving surplus management capital of $617.9m (2020: $341.0m), or $39.1% (2020: 22.1%) over our Group management capital requirement of $1,581.6m (2020: $1,540.3m).

Share capital

During 2021, FFHL Group Limited (Fairfax) subscribed for 8,299,909 new Brit Limited class B shares for a contribution of $31.1m.

During 2021 OMERS Administration Corporation (OMERS), the defined benefit pension plan for municipal sector employees in the Province of Ontario, Canada, subscribed for 92,364,532 new Brit Limited class A shares for a contribution of $375.0m.

Following the issuances during the year, Fairfax owns 86.2% of Brit Limited while the remaining 13.8% is owned by OMERS.

Dividends

A $375.0m dividend was paid to the Class B shareholders on 7 September 2021.

RiverStone Management Pension and Life Assurance Plan

On 18 August, Brit Insurance Holdings Limited assumed responsibility for the liabilities of the RiverStone Management Pension and Life Assurance Plan from Riverstone Holdings Limited and RiverStone Management Limited, through a Flexible Apportionment Agreement (FAA). On the transfer date, the Plan's surplus on an IAS19 basis was $44.9m which was recognised through equity.

Reserving policy

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

financial position and capital strength

Our reserving policy is to reserve to a 'conservative best estimate' and carry an explicit risk margin above that 'conservative best estimate'. This policy has led to a track record of modest annual reserve releases. In 2021, this trend, first reported in 2004, continued with net releases of $100.1m (2020: $63.4m).

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

Asset allocation

Brit's invested assets (financial investments, investments in associates, cash and cash equivalents and derivative contracts) at 31 December 2021 were $5,546.2m (31 December 2020: $4,857.1m).

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

		Statutory basis							
	31 December 2021	Equity securities $m	Debt securities $m	Loan instruments $m	Specialised investment funds $m	Cash and cash equivalents $m	Associated undertakings $m	Investment Derivatives (net) $m	Total invested assets (look-through) $m
Look-through basis	Government debt securities	**–**	**2,232.6**	**–**	**21.8**	**–**	**–**	**–**	**2,254.4**
	Corporate debt securities	**–**	**907.2**	**–**	**10.9**	**–**	**–**	**–**	**918.1**
	Structured products	**–**	**–**	**–**	**21.3**	**–**	**–**	**–**	**21.3**
	Loan instruments	**–**	**–**	**38.3**	**3.0**	**–**	**–**	**–**	**41.3**
	Equity securities	**480.1**	**–**	**–**	**261.6**	**–**	**15.0**	**–**	**756.7**
	Alternative investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	Cash and cash equivalents	**–**	**–**	**–**	**39.0**	**1,510.3**	**–**	**–**	**1,549.3**
	Investment related derivatives	**–**	**–**	**–**	**(0.8)**	**–**	**–**	**5.9**	**5.1**
	Total invested assets (statutory)	**480.1**	**3,139.8**	**38.3**	**356.8**	**1,510.3**	**15.0**	**5.9**	**5,546.2**

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

The short duration position relative to Brit's liabilities was maintained over the year, which has benefited as the yield curve has risen. Further rises could represent a better entry point to longer dated bonds.

We reduced our credit allocation in the fourth quarter due to continued spread tightness and inflation concerns. The allocation to credit risk, is primarily defensive, focused on high quality, investment grade non-cyclical companies. Equity allocations are invested in a portfolio of both listed and private (non-listed) equities and funds.

The assets remain primarily invested in cash and fixed income securities (2021: $4,763.1m or 85.9% of the portfolio; 2020: $4,225.8m or 87.0% of the portfolio). The fixed income portfolio is short dated, with a majority allocation to government bills. Corporate bonds represent 16.6% (2020: 32.5%) of the total portfolio with 2.1 pps (2020: 1.0pps) of this figure being below investment grade.

The exposure to equities and funds has increased over 2021 (2021: $778.0m or 14.0% of the portfolio; 2020: $628.4m/12.9%), predominately due to market movements.

The duration of our portfolio at 31 December 2021 was 1.50 years (2020: 1.45 years), which is shorter than the duration of our liabilities. US rates rose across the curve over 2021, as markets priced in interest rate increases due to inflation.

At 31 December 2021, 83.2% of our invested assets were investment grade quality (2020: 83.7%). An analysis of the credit quality of our invested assets is set out below:

Invested assets by rating	2021 %	2020 %
AAA	**51.7**	37.9
AA	**10.2**	9.1
A	**11.1**	24.7
BBB	**7.8**	10.8
P-1 and P-2	**2.3**	1.2
Other	**16.8**	16.3
Total	**100.0**	100.0

Other includes equities, funds and investment related derivatives

Gearing

At 31 December 2021, our gearing ratio was 20.0% (2020: 28.0%).

Brit has in place a $450m revolving credit facility (RCF), the expiration date of which was extended by two years during 2021 to 31 December 2025. Under our capital policy we have identified a maximum of $250.0m (2020: $250.0m) of this facility to form part of our capital resources, with the balance available for liquidity funding.

At 31 December 2021, the cash drawings on the facility were $45.0m (2020: $130.0m) and a $130.0m uncollateralised letter of credit (LoC) was in place (31 December 2020: $130.0m/uncollateralised) to support our underwriting activities. At the date of this report, cash drawings had reduced to $15.0m and the $130.0m uncollateralised LoC remained in place.

At 31 December 2020, Ki Financial Ltd was party to a $50m LoC facility to provide a proportion of the FAL for Syndicate 1618 through a segregated account of Sussex Re. This was fully utilised and uncollateralised at 31 December 2020. During 2021, this facility was increased to $130m and at 31 December 2021 it was fully drawn and uncollateralised.

In addition, we have in issue £135.0m of 3.6757% subordinated debt with a carrying value of £135.0m/$182.9m (31 December 2020: £135.0m/$184.5m). This instrument, which is listed on the London Stock Exchange, was issued in December 2005, matures on 9 December 2030.

Foreign exchange management

At 31 December 2021, our US-dollar denominated net assets were 83.3% of our total net assets (2020: 90.8%), reflecting the currency denomination of the majority of the business we write. Our net assets, analysed by currency, are as follows:

Net assets/(liabilities) by currency	2021 %	2020 %
US dollar	**83.3**	90.8
Sterling	**8.0**	(1.9)
Canadian dollar	**4.7**	6.3
Euro	**2.8**	4.1
Australian dollar	**1.2**	0.7
Total	**100.0**	100.0

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

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

risk management, principal risks and uncertainties

Risk Management Framework

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

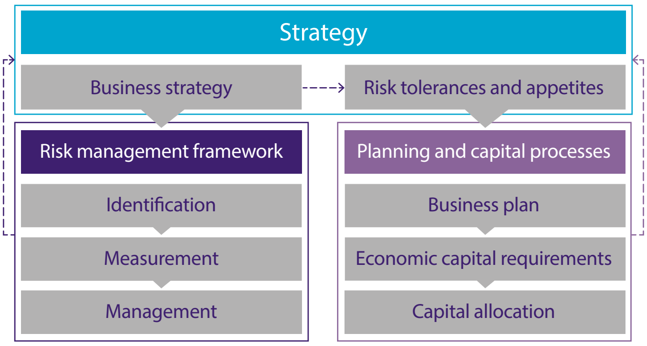
Brit's Risk Management Framework (RMF) applies a consistent methodology and structure to how risks are identified, measured, managed and monitored. This process enables us to protect policyholders and maximise shareholder value by ensuring the risk and capital implications of business strategy are well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

The RMF has the following key elements:

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

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

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



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

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

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

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

Risk Governance

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

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

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

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

Key risks

The RMF categorises the risks to Brit as follows:

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

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

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

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

Principal risks

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

Principal risk	Mitigation tools	Metrics	Status
Underwriting – pricing			
Inadequate pricing could have a material adverse effect on our results for underwriting operations and financial condition.	Strategic focus on underwriting performance rather than on top line growth. Strong governance processes around strategy and planning. Pricing discipline is maintained through strict underwriting guidelines, monitoring of the delegated authorities and enforcement of the technical pricing framework. Efficient use of the outwards reinsurance programme. Monitoring of risk adjusted rate change.	Risk adjusted rate change (2021: increase of 12.9%; 2020: increase of 10.6%).	We have seen positive rate rises since 2018. However, these increases follow four years of rate reductions. Active rebalancing of the portfolio remains a key focus for management. Follow business only follows lead syndicates with a proven profitable track record.
Underwriting – natural catastrophe			
A catastrophic event or catastrophic events could result in large insured losses that adversely impact our financial results and potentially our capital position.	Diverse portfolio of risks written between lines of business and geographic location. Regular modelling and monitoring against the Board catastrophe risk appetite by our exposure management team. Effective outwards reinsurance programme in place, with particular emphasis on managing accumulation of risks. Clear limits set for key accumulations and conservative use of line size by our underwriters. Identification and monitoring of emerging risks such as climate change.	Largest realistic disaster scenarios (1 October 2021 estimated loss in $m): see table below	An aggregate catastrophe excess of loss cover is in place to protect the Group against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps, catastrophe bonds and industry loss warranties where they are a cost-efficient means to ensure that the Group remains within its catastrophe risk appetite.
Reserving			
Estimating insurance reserves is inherently uncertain and, if insufficient, may have a material adverse effect on our results and financial condition.	Conservative best estimate reserving philosophy with track record of releases. Actuarial team recommend reserves independently from underwriting division using established actuarial techniques. Independent external review of reserving is performed annually.	Reserve release ratio (2021: 4.8%; 2020: 3.7%).	Reserves are held at a 'conservative best estimate' and we also carry an explicit risk margin. No change in approach from prior years.

Event	Gross	Net
Gulf of Mexico windstorm	1,072	216
Florida Miami windstorm	1,190	170
US North East windstorm	1,103	142
San Francisco earthquake	1,581	415
Japan earthquake	326	190
Japan windstorm	58	35
European windstorm	98	63

Principal risk	Mitigation tools	Metrics	Status
Investment risk			
Invested assets are susceptible to changes in economic conditions. A decrease in the value of our invested assets may have a material adverse effect on our results, financial condition and liquidity.	Strong governance processes around investment strategy. Regular monitoring against investment risk appetite which includes defined limits for solvency, earnings risk and liquidity risk. Investment guidelines in place for individual asset classes and monitored regularly.	Return on invested assets, net of fees (2021: 3.3%; 2020: 1.0%). Running yield (2021: 0.9%; 2020: 0.6%).	Financial markets remain volatile following the COVID-19 pandemic. Although markets have almost recovered to pre-pandemic levels, interest rates remain low and inflation is at a ten-year high. Our portfolio remains highly liquid, and was primarily invested in cash and investment grade fixed income securities as at 31 December 2021.
People			
We could be adversely affected by the loss of key employees or by an inability to attract and retain qualified personnel.	Our remuneration strategy (including share-based remuneration) is designed to reward talent and success. We have a proven track record in being able to retain high-performing staff. Succession and contingency plans are in place in the event of the loss of a key employee. Regular monitoring of employee turnover and morale.	Staff turnover (2021: 14.3%; 2020: 10.5%).	The Group's key functions have continued to operate effectively despite the disruption caused by COVID-19 related measures. Feedback from brokers indicates Brit is performing well operationally relative to its competitors. The current environment remains competitive with a number of our peers actively seeking talented staff. We actively manage our remuneration and HR policies to ensure we continue to retain and attract the best staff. Current turnover rates remain well within our appetite.

COVID-19 risk management

While 2021 has seen the relaxation of some of the measures Governments implemented to try to contain the pandemic, there continues to be uncertainty and challenges.

Pandemic exclusions offer some protection against new insurance claims. However, there remains uncertainty around losses from COVID-19. We would expect the level of uncertainty around Contingency to reduce over time, however, within areas of the account such as Casualty Treaty, Property Treaty and Open Market Property the ultimate loss outcome is still to emerge and will be influenced by factors such as coverage issues and the interpretation of contract wording.

COVID-19 has also caused significant volatility in the financial markets. Interest rates, while rising remain at depressed levels and inflation continues to increase.

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

- **Operational risk**
  COVID-19 caused a temporary shift from an office-based working environment to a remote working environment for all staff. Brit continues to monitor the situation and adapt its approach to reflect current circumstances. Brit and its outsourced service providers have adapted well to the changing situation and operational performance has generally been strong.

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

- **Insurance risk**
  In 2020, COVID-19 resulted in additional claims to the Group, principally relating to event cancellation covers. The impact in 2021 has been limited. The Group has a rigorous process for establishing reserves for insurance claim liabilities, including those associated with COVID-19. However, significant uncertainties remain around loss estimates given that the pandemic is ongoing. We also continue to monitor the potential for claims arising indirectly from the pandemic. For example, due to the global recession which may lead to an increased risk of moral hazard, fraud and a more litigious environment generally.

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

- **Investment and Market risk**
  The investment portfolio is actively managed to reflect market developments and, in 2020, action was taken to ensure Brit's portfolio is appropriately positioned for the recessionary economic conditions and to take advantage of opportunities in asset prices where these arose. This action has continued in 2021. The volatility in investment returns experienced over the course of 2020 and 2021 is within the range of stress and scenario tests carried out by the Group.

- **Credit risk**
  COVID-19 has caused economic disruption around the world with many businesses and individuals forced to cease business activity in light of government lockdowns. As at 31 December 2021, the Group has not seen a material increase in defaults but continues to monitor this closely.

- **Solvency and Liquidity risk**
  As at 31 December 2021, the Group held a surplus of $617.9m over its management capital requirements. All regulatory capital requirements have been complied with by the Group's individual insurance subsidiaries throughout 2021. Our regulatory capital requirements calculation as at 31 December 2021 included an allowance for the uncertainties associated with COVID-19 as described above. Brit continues to benefit from the support of the wider Fairfax group.

  The Group has conducted stress testing of its underwriting subsidiaries' liquidity resources, in order to assess their ability to continue making claims payments as they fall due. This stress testing demonstrated their continued ability to access sufficient liquidity, even in severe stress scenarios. At 31 December 2021, the Group held $3,803.7m of cash and short-dated government debt securities, and $275.0m undrawn on its RCF.

  As part of the terms of the RCF, Brit is obliged to ensure that borrowings under the facility will not exceed 40% of consolidated net tangible assets (defined as the aggregate of the share capital of the Company, the amount standing to the credit of the consolidated reserves of the Group and any financial indebtedness of the Group which is fully subordinated to the facility). At 31 December 2021 Brit was well within this threshold, with RCF drawings equating to 10.4% of consolidated net tangible assets (2020: 16.0%).

Emerging risks

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

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

Climate change related financial risks

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

The financial risks to insurers may include the potential for increased frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. In line with previous years, 2021 continued to see wildfires occurring worldwide and the Atlantic hurricane season was the third most active season on record after 2020 and 2015.

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

- **Natural catastrophe risks** relating to climate change are the physical risks of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims and could impact Brit in the short to medium-term. We continuously monitor scientific studies, regularly review the completeness of existing models and the application of the Brit view of risk. Brit's exposure to natural catastrophe risks is monitored on an ongoing basis by the Risk Management Function.
- Climate change could result in additional **liability claims** arising from increasing climate litigation against Brit's clients. The claims arise from firms contributing to climate change, failing to transition to renewables, greenwashing or directors' breach of fiduciary duties. The nature of these claims could impact Brit in the medium to long-term. Brit's exposure is limited through limits on gross underwriting exposure and through the purchase of reinsurance.
- **Investment losses** have the potential to arise from exposure to industries perceived to be contributing to climate change. This transition risk could adversely impact Brit very quickly as financial markets valuations fluctuate. Brit has a diversified investment portfolio, with limits on exposure to individual issuers. Brit is developing metrics to strengthen its understanding of the potential impacts of climate change on its investments.

Brit is managing the risks associated with climate change in line with the RMF which is reviewed annually and regulatory guidance developments are monitored through the committees and working parties. This will continue to be an area of Management, Risk Committee and Board focus, with a multi-disciplinary Climate Change Risk Working Party to consider the financial risks associated with Climate Change.

Climate change scenario analysis has been conducted as part of the ORSA process, and Brit participated in the PRA's Climate Biennial Exploratory Scenario (CBES) testing exercise in 2021. Brit's Solvency II internal models include an allowance for the impact of climate change. The analysis utilises catastrophe modelling, expert judgement, scenario analysis and selected metrics as tools to monitor and manage exposure to climate-related risks. The outputs from these feed into business decision making. Brit is compliant with PRA Supervisory Statement SS3/19 which sets expectations for firms regarding their consideration of climate risk.

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. An annual review of equity holdings is conducted which includes a review of the ESG strategy of underlying companies within Brit's equity portfolio. Holdings of industries such as oil and gas, transport and utilities, which deemed to materially contribute to climate change are also monitored. These are further discussed on page 47.

our people, culture, social, community and environmental matters

Introduction

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

Our people and culture

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

During 2021 we continued to strengthen our highly committed team. Through the attraction and recruitment of new talent and the ongoing development of existing expertise, we continued to embed our culture and increase performance. Significant hires included Gavin Wilkinson (Group Chief Financial Officer) and Bilge Mert (Chief Technology Officer).

Our culture is communicated and lived through an established framework that identifies and rewards strong performance. In 2021 we changed the framework to give clarity to everyone in the business that inclusion and diversity was at the heart of what we do and that everybody should be able to thrive and bring their whole self to work (see the inclusion and diversity section for further information).

We are committed to developing the technical, behavioural, management and leadership skills required for our teams to outperform, both individually and collectively. We continue to invest in the future of Brit through our leadership, graduate and intern programmes and succession and talent mapping exercises, all of which aim to grow expertise from within and ensure robust succession plans. In 2021 we invested in an executive education programme, in partnership with Chicago Booth, which saw 36 of our top leaders attending three education modules.

In 2021 we redesigned our training programmes so that they could be delivered in a virtual format. Feedback has been consistently good and we will continue to deliver some of our programmes this way.

We launched the Brit Underwriting Academy which aims to provide our underwriting teams with the skills and knowledge required to be competitive in an evolving and increasingly digital marketplace. It provides training for each underwriting level and role in the business and establishes a promotion system which identifies and develops our underwriting talent in a fair, consistent and repeatable way.

For much of 2021 we were able to keep our offices open for those that felt working from home was damaging to their mental health and we opened up further in September encouraging everyone to work from the office 50% of the time, until new government guidelines came into effect as a result of the Omicron strain of COVID-19. We continued with our 'Keeping Brit Brit' development programme which aims to keep our culture alive and help people focus on their and their teams' performance and development through the pandemic and hybrid working.

Health and wellbeing has continued to be a focus through 2021. We are committed to embedding a long-term positive culture across the organisation, where employees recognise their mental and physical health are supported equally. This focus reduces stigma, builds confidence and encourages open conversations about mental health. It also raises awareness of mental health matters, including the ability for employees and managers to recognise the signs of common mental health issues, while empowering people with long term mental health issues to thrive in the workplace.

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

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

The 2021 staff turnover rate excluding retirements and redundancies was 14.3% (2020: 10.5%).

At 31 December 2021, 33.7% (2020: 38.7%) of staff had completed at least five years of service and 12.3% (2020: 14.1%) had served at least ten years.

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

Inclusion and Diversity (I&D)

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

During 2021 over 80% of staff have attended unconscious bias training to raise awareness, recognise when their biases may be affecting their decision making, and give an opportunity for discussion across teams. We have also launched a reverse mentoring programme, and given all colleagues access to further inclusion and diversity training.

Through 2021 we have launched a number of policies to further demonstrate our commitment to I&D. These include shared parental, adoption, paternity and maternity leave, carers, workplace adjustments, domestic abuse, pregnancy loss, menopause, fertility treatment and, in jurisdictions

our people, culture, social, community and environmental matters

where laws and regulations allow, culture and diversity leave. A number of these policies were showcased in our annual 'Celebrate the Difference' week through speakers and discussions. We are one of the very few companies to adopt a culture and diversity leave policy and are proud to give people the option to take leave on holidays that are important to them – employees are no longer obliged to take the prescribed public holidays but instead receive an allocation of equivalent days for use on any public or national holiday or in relation to any religious belief, culture and/or diversity days.

Other highlights included initiating a partnership with Code First Girls to provide training and internships to women in technology, a story-telling event with Peter Chand for Diwali, sponsorship of an event on the experience of black LGBT inclusion (as part of the Lloyd's Dive In Festival), a Black History Month quiz, an increased presence on VERCIDA (the accessible career site) and the hosting of a British Sign Language (BSL) workshop.

I&D remains a priority at Brit and we look forward to continuing our journey in 2022.

Staff engagement

Our biannual Employee Engagement Survey was undertaken in the fourth quarter of 2020. In 2021, our CEO presented the results to the Board and all teams were taken through their results to allow them to formulate their team action plan. The next survey will take place in 2022. As reported last year overall engagement was 76% (2018 69%) and participation was 89% (2018 92%).

At Brit we believe that good communication enables our teams to perform at their best. The Board engages with employees via the executive Directors. To help the executive Directors foster a two-way conversation with colleagues there are several internal communication methods to help cascade information and to receive feedback including:

- **'The Hub':** Our Intranet site appears automatically when a browser launches and gives colleagues the latest news. It is also home to the executive blog 'Lead Lines', press releases and other announcements. It also allows colleagues to comment on and share articles. The Hub has become the main portal for our I&D education, sharing resources from our Employee Resource Groups (ERGs) at key times such as Pride, Black History Month, Diwali, Hannukah and Mental Health Awareness Week.
- **Email Communications:** Using an email marketing platform, key colleague messages are shared with employees in an engaging and digestible format. During 2021, when there were several periods of remote working, a weekly 'pulse survey' was distributed to help gauge the mental wellbeing of all the workforce. In 2021 we sent 176 campaigns with an average open rate of 83%.
- **Spotlights are shared on a regular basis.** These are in-depth interviews with people from around the business. Topics covered in 2021 included overviews on new innovations launched within Brit to mental health discussions with several colleagues.
- **Stream video channel:** Our in-house video channel hosts 'watch again' videos and other video content. It is used by teams to share video explainers of new systems and processes and to share meeting recordings for reference at a later date.
- **Town halls:** In 2021 our regular Executive Committee updates were delivered using Teams Live, which allows interaction from both those present with the speaker and those dialling in from remote locations. All of our meeting rooms in the Leadenhall building allow for interactive Teams meetings to be broadcast in this way. These hybrid meetings have improved staff engagement, with over 70% joining live and more watching on Stream.

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

Social and community

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

During 2021 we again supported ten charities chosen by employees. The charities selected for 2021 were Haven House, Coppafeel, Anthony Nolan, Cry in the Dark, Huntingdon's Disease Association, Rukhsana Khan Foundation, MIND, Best Buddies International, the Leukaemia and Lymphoma Society and Grief Encounter. We donated a sum of money to each charity at the start of the year and continued with fundraising activities through the year. A further ten staff-nominated charities have been selected to receive our support in 2022.

We further promote staff involvement in the community by granting every employee two additional days of paid leave a year to volunteer their time to a registered local charity. Whilst take up was lower than usual in 2021 a number of people have used their days to volunteer at Covid vaccine and testing centres.

In 2021 we continued our support for a school that educates boys and girls from the age of five to 18 in Kibera, the largest slum in Africa. The school does not discriminate between religion or tribal allegiance but instead believes in its motto that 'knowledge is power'. Unfortunately, due to COVID-19 we were unable to send a group of volunteers to Kibera in 2021, but we have been kept informed about the work the school has been doing and the progress they have made.

We have supported Team BRIT, a team of disabled motor racing drivers, since 2017. In 2021, we continued our contract with Team BRIT, as title sponsor, to support their racing academy and success on the race course. They are making progress towards entering a team in the famous Le Mans 24 Hours endurance race.

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

During 2021, Brit donated $1.1m (2020: $1.1m) under its charitable initiatives. In addition to this, Brit employees completed 19.5 volunteering days (2020: 69 days).

Environmental responsibility

Introduction

Climate change will have a major impact on our business and on all our stakeholders. Brit is committed to responsible business practices and recognises that we are most effective when acting alongside others in our industry. We are active members of ClimateWise and IcebreakerOne, and take part in ESG initiatives within the Lloyd's market and the wider Fairfax group. Brit is committed to disclosure in line with the Taskforce of Climate Change-Related Financial Disclosures (TCFD) guidance, and we have further developed our disclosures for 2021. We have made progress in 2021 and in 2022 will continue to implement our ESG strategy, continue to develop reliable and accurate ESG data to inform our decision making, improve our metrics and set targets.

Governance

Board oversight

Climate change has been on our Board's agenda since it was identified as an emerging risk in 2014. Since then, the Board has focused on developing its understanding of the uncertainty associated with climate change and climate-related risks and opportunities.

In 2021 a key priority of the Board was to agree an ESG strategy that could be embedded across the business. During 2021 the Board:

- Considered the Group's climate and wider ESG-related immediate, medium-term and longer-term priorities;
- Ratified the Group's ESG statement;
- Reviewed the Group's net zero work and discussed the roadmap to achieve full net zero by 2025; and
- Received ongoing training on sustainability and climate related risks.

While retaining direct oversight of climate change and ESG related matters, the Board has delegated responsibility to the following Committees:

- **Audit Committee:** The Audit Committee is responsible for overseeing internal controls, adherence to reporting requirements, and approval of climate-related disclosures.
- **Risk Oversight Committee (ROC):** The ROC has oversight of the identification and management of risks relating to climate change. The Committee also oversees climate-related stress and scenario testing, such as the PRA Climate Biennial Exploratory Scenario (CBES) testing, and reporting of climate-related risk disclosures.
- **Investment Committee:** Since 2020, the Investment Committee has considered ESG and climate related risks in its investment decision making process. This has included assessing the related ESG risk through a review of external investment manager ESG reports and an internal review of Brit's equity positions.

Management oversight

- ESG Committee: Brit's ESG Committee includes senior representation from Underwriting, Investments, Finance, Risk, Operations, Facilities and Communications. The Committee is chaired by Brit's Director of Operations and is focused on five themes: investments, underwriting, financial risk, Brit as a business, and strategy and external engagement. The Committee reports formally to the Executive Committee (EC), which is responsible for ensuring that climate-related issues are embedded into the relevant operating committees.
- Climate Change Risk Working Party (CCRWP): The multi-discipline CCRWP is focused on collaboratively managing the financial risks arising from climate change through our risk management framework. It reports to the ROC and is chaired by Brit's Chief Risk Officer and Chief Actuary.
- ESG External Engagement Working Group: The group was established in 2021 in response to a growing number of ESG queries from external parties. The group meets monthly if there are items for consideration.

Strategy

Overview

We have an important role in fighting climate change, and we believe firmly that insurance is a social good. In 2021 we published our five-part ESG strategy:

1. **Working with our clients and business partners to understand and mitigate the impact of climate change**
   We have a considered approach to underwriting that supports our clients as they move to low-carbon, environmentally conscious business models.
   - We always think long-term to make sure our clients have stability in their businesses
   - We offer products which empower our clients when

navigating the energy transition, helping them face the future, even in uncertainty

- We are committed to simplifying the claims process with faster payments

2. **Putting the environment at the centre of our investments and underwriting strategy**
   Our approach to investments and underwriting is evolving. We have integrated ESG into our decision-making in both areas and are working towards a more complete use of ESG data where available. Our underwriting and investment strategy will ensure we deliver to and go beyond Lloyd's stated sustainability commitments.

3. **Transitioning to be a net-zero business**
   We are on our own journey to net-zero, through a detailed understanding of our emissions. We are reviewing our operations to actively reduce our greenhouse gas emissions and reduce waste and water consumption. We currently offset Scope 1 and 2 emissions and a portion of Scope 3 emissions by investing in socially responsible offset projects. We are targeting net-zero by 2025 and are developing a roadmap to achieve this.

4. **Ensuring we manage the risks to Brit**
   Our cross-departmental Climate Change Risk Working Party is focused on collaboratively managing the financial risks arising from climate change through our risk management framework. This covers all three aspects of the PRA/Bank of England's framework– physical risks, transition risks and liability risks. Climate Change risks are captured in our ORSA and are discussed at Executive and Board level.

5. **Placing inclusion and diversity at the heart of everything we do**
   Our employees and local communities are a big part of this effort. In line with our commitment to inclusion and diversity we value the unique perspective everyone brings to our business, no matter their age, race, religion, gender, identity or background. We have several active and committed employee resource groups who work together with our dedicated Head of Inclusion and Diversity to make sure all voices are heard.

Underwriting strategy

We continue to review and evolve our products to ensure they promote improvements in ESG standards across our clients. In 2021, for example, our Energy division launched a product providing coverage for both the construction and operational exposures of renewable energy producers. In 2021, we also announced that we will not actively provide insurance to any new coal mining operations.

Our underwriters are actively encouraged to consider and assess the ESG aspects of risks within their portfolios, and we are developing protocols to ensure a suitable level of due diligence is undertaken during the underwriting process, to reduce our exposure to businesses with poor ESG practices. These now form part of our underwriting philosophy and will be used to influence our ongoing strategy.

The extent of the impact of climate change on the frequency and severity of natural catastrophes, and the level of claims arising from such events, is an area of uncertainty. Working in conjunction with the Underwriting teams, our Exposure Management department continually strives to identify and quantify the potential impact of increasingly frequent weather-related catastrophe events. This is monitored by Brit's CCRWP.

We constantly review opportunities, and continue the development of new products and services to support our clients on their ESG journey, and to address their changing needs.

During 2021 we trialled various processes by which we could identify a suitable ESG score for all our insureds. The availability of quality data has proved challenging. However, we continue to identify new external data sources, and will continue to focus on this during 2022.

As part of our 2022 business planning process, Brit affirmed its commitment to Lloyd's ESG statement and responsible business practices. Additionally, the business planning process has examined class specific ESG initiatives that have been implemented, and those that will be implemented during 2022.

Investment strategy

ESG considerations are integrated into our investment decisions. Our approach is to engage with our investment managers to ensure that appropriate consideration is given to ESG and climate risk in investment decisions. This allows us to understand both risks and opportunities, and allows us to invest in businesses which are actively improving from an ESG perspective, thereby supporting their transition. We also prohibit new investments in the more environmentally damaging sectors (such as thermal coal and oil sands) in all our portfolios.

We discuss ESG matter with all our investment managers, both on an ongoing basis and as part of our formal annual due diligence reviews. For our primary investment manager, climate risk is a category of business risk applied to all investments. We continue to engage with our managers to enhance our ESG investment strategy as best practice in this area continues to evolve.

In 2021 we performed analysis of our equity positions which showed the overall ESG risk rating to be low-medium. Our overall portfolio is relatively low risk, reflecting its large allocation to US government bonds and cash holdings.

In November, Ki entered into a $130m sustainability linked 'Funds at Lloyd's' letter of credit agreement with its banking partners. The facility, which is structured to support Syndicate 1618 as Ki grows, is linked to the ESG rating of Ki's 'Funds at Lloyd's' investment portfolios and Syndicate 1618's assets, with its pricing depending on the compliance of Ki's investment portfolios with ESG targets. This builds on the investment guidelines Ki has established for its third-party managers, which incorporate ESG principles and targets, and will help Ki build a sustainable footprint.

We have finalised our initial climate risk investment metrics. ESG data availability remains challenging, with external ratings often backward looking and lack consistency. These metrics will therefore initially focus on sector allocations, though we expect them to evolve over time.

Climate scenario analysis
Climate scenario analysis is key to understanding the potential impact of climate-related risks on Brit.

In 2021 Brit participated in the PRA's Climate Change Biennial Exploratory Stress Test (CBES) exercise. CBES requirements include engaging with climate science and giving consideration to how we can adjust catastrophe modelling to reflect climate change over varying time horizons. The learnings from this exercise will be used to enhance the metrics used to measure the risks associated with climate change. We are analysing 12 perils including wildfire, flood, hurricane, and severe storm, and are investigating how our modelled claims might change by 2030 and 2050, on both 'no action' and 'action' bases, with the 'action' basis involving large scale intervention to reduce greenhouse gas emissions.

In addition, Brit continues to engage with our outsourced service providers to enhance their climate disclosures and research. This includes working with our natural catastrophe modelling software providers to ensure their models appropriately allow for the impact of climate change. Brit has also engaged with our investment managers to develop climate change related reporting and metrics.

Risk management
We manage the risks associated with climate change in line with our Risk Management Framework (RMF). The Group's approach to managing climate change related financial risks is set out on page 43.

Metrics and targets
A key part of risk management at Brit is the setting of risk tolerances and risk appetite. We are committed to developing a metrics and targets framework to manage climate-related risks and opportunities. As noted in the 'strategy' section above, we are in the process of identifying a suitable 'ESG scorecard' for our underwriting portfolio and have set climate risk metrics for our investment portfolio. We will continue to develop these metrics in 2022.

Greenhouse Gas reduction, carbon management and staff engagement
At Brit we take our environmental responsibilities very seriously and continually seek to improve the sustainability of our business. In 2021 we have continued to focus on greenhouse gas (GHG) reduction, carbon management and staff engagement.

Our key activities are below:

- **Carbon management**
  We have continued with our initiative to offset all our carbon emissions through ClimateCare (www.climatecare.org). For every tonne of carbon generated we fund the equivalent reduction through ClimateCare's carbon reduction projects – neutralising our impact and helping to address climate change. For 2021, we have purchased further tonnage to offset additional emissions generated by our employees while working from home. At 31 December 2021 we remained fully Energy Saving Opportunities Scheme (ESOS) compliant.

  We measure and monitor our carbon footprint. In 2021 our carbon emissions per employee before offset were 0.7 tonnes (2020: 2.4 tonnes), which reduced significantly after offset to a negative 0.7 tonnes per employee (2020: negative 2.1 tonnes). In 2020 and 2021, the negative figures reflect our purchase of further tonnage to offset additional emissions generated by our employees while working from home. The sources of these emissions were as follows:

Emission source	2021 CO_2 (tonnes)	2020 CO_2 (tonnes)
Gas (note 1)	**111**	339
Electricity (note 1)	**222**	511
Business travel – air (note 2)	**218**	959
Business travel – hotels (note 2)	**10**	20
Business travel – other (note 2)	**–**	–
Total carbon footprint before offset	**561**	1,829
Offset	**(1,122)**	(3,373)
Total carbon footprint after offset	**(561)**	(1,544)
Number of employees at 31 December, excluding NEDs (note 3)	**804**	748
Carbon footprint per employee before offset	**0.7**	2.4
Carbon footprint per employee after offset	**(0.7)**	(2.1)

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

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

Note 3: Excludes emissions and employees of Camargue, which was acquired on 4 October 2021.

our people, culture, social, community and environmental matters

In 2021 there was a significant drop in gas and electricity consumption and related carbon emissions due to longer periods of working from home as we followed government guidelines. We also took active measures to reduce energy consumption. For example, in our head office, where the majority of our staff are based, heating ran for only one hour a day during office closure periods, there was a significant reduction in on-site IT equipment as we successfully moved to a cloud environment, and we transitioned to more energy efficient lighting.

The reductions in travel related emissions reflect very limited international travel in 2021, reflecting in-house and international restrictions.

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

	2021		2020	
	kWh	GHG (CO2 tonnes)	kWh	GHG (CO2 tonnes)
Scope 1 (note 3)	**601,996**	**111**	1,047,392	271
Scope 2 (note 4)	**690,711**	**177**	881,308	409
Scope 3 (note 5)	**–**	**–**	–	–
Total before offset	**1,292,707**	**288**	1,928,700	680
Per UK employee before offset	**2,001**	**0.45**	3,242	1.1

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

Note 2: In the UK Brit operates out of an office which forms part of a larger commercial development. Usage and emission data has been supplied by the building manager.

Note 3: Includes gas purchased for consumption in Brit's UK office, for which data has been supplied by the building manager.

Note 4: Includes electricity purchased for consumption in Brit's UK office, for which data has been supplied by the building manager.

Note 5: In 2020 and 2021, Brit had de-minimis emissions from business travel in rental or employee-owned vehicles.

Note 6: Details of efficiency actions are given above.

- **Net-zero:** We are on our own journey to net-zero. We are reviewing our operations to actively reduce our emissions, waste and water consumption. We currently offset our emissions by investing in socially responsible offset projects. We are targeting full net-zero by 2025 and developing a roadmap to achieve this.
- **Supply chain:** Work commenced in 2021 to streamline our supply chain, as we seek to minimise our carbon footprint, through analysis of our business activities, waste management and energy consumption.
- **Travel:** Brit's travel policy encourages the booking of lower carbon-intensive flights. Brit has also heavily invested in transforming the way it works by introducing flexible working and by installing digital and video conferencing systems throughout Brit's offices.
- **Recycling:** We continue to strive to reduce the levels of recyclable and non-recyclable waste we generate. During 2021 we recycled 5.1 tonnes of paper waste (2020: 4.5 tonnes) and we sent 4.2 tonnes of general waste to energy recycling (2020: 3.6 tonnes). In 2021, we also recycled 0.4 tonnes of glass (2020: 0.3 tonnes), 1.7 tonnes of cardboard (2020: 1.6 tonnes) and 0.5 tonnes food waste (2020: nil). During 2021, in conjunction with our building managers, we continued to work hard to reduce waste sent to landfill. We continue to use a business dining and internal hospitality provider that is committed to the principles of sustainable food procurement. It recognises that it is important to the future wellbeing of the UK that farming communities are supported and able to contribute to their supply chains. We continue to encourage our employees to be more environmentally aware and climate conscious.
- **Staff engagement:** In 2021 Brit provided ESG e-learning to all employees. We are also committed to reintroducing environmental volunteering days as COVID-19 restrictions eased.

stakeholder engagement

The Board recognises the importance of engaging with its broader stakeholder base. The Company's key stakeholders, as identified by the Board, are set out below, together with why and how we engage with them and the outcomes of that engagement. In 2021, engagement continued to be strengthened, on both virtual and in person bases.

Clients and Intermediaries

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

stakeholder engagement

Reinsurers

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

Investment managers

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

Capital providers

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

Regulators

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

stakeholder engagement

Key suppliers

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

Members

Why we engage	Form of engagement	Impact of engagement
At 31 December 2021, Brit Limited was 86.2% owned by Fairfax Financial Holdings Limited (FFHL) and 13.8% by OMERS Administration Corporation. Our aim is to provide long term sustainable value for our shareholders. Engagement ensures that our objectives are aligned and that our strategy, operating environment and performance are clearly understood.	Both of Brit's ultimate shareholders are represented on the Brit Limited board and there is regular contact between Brit executives and senior management and those of our majority shareholder.	This engagement helps ensure that Brit's strategy is aligned to and supported by our shareholders. Such engagement also presents us with underwriting and investment opportunities, and can result in favourable collaboration with other members of the Fairfax group.

section 172(1) statement

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

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

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

The Board's approach to section 172(1) and decision making
The Board's terms of reference, which are reviewed annually, clearly articulate the Board's responsibilities, the role of the Chair and matters reserved for the Board. They also set out which of the Board's powers and responsibilities may be delegated to other committees and the governance mechanisms by which the Board monitors those committees' activities and performance. The Chair ensures that these terms of reference are adhered to and, by doing so, ensures that Directors have due regard for all appropriate factors during the decision-making process.

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

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

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

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

During 2021, the Board has received and discussed regular comprehensive updates on the impact of COVID-19. These updates have included a general update on the pandemic, its impact on financial and capital markets, and the impact on Lloyd's and the wider insurance market. It also included an overview of key developments at Brit, an update from each key functional area, scenario analysis and an assessment of key risks.

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

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

From time to time the Board receives detailed reports on specific areas for it to consider. During 2021, such reports included a 'Group Capital Update' and a 'Group Investment Update'.

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

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

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

section 172(1) statement

The Board reviews its key stakeholder map on an annual basis. New key stakeholder relationships are identified through information received and considered by the Board on a regular basis, or through the Board's consideration and approval of substantial contracts and commitments.

Training

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

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

Our culture

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

Our brand purpose informs everything we do, from how we communicate, to how we develop and deliver our services, to how we work together. Our purpose informs our core philosophies, which are set out on page 9.

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

Our people

Our people are key to our success. How we engage with them and how we invest in them is set out on page 45.

Our stakeholders

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

Community and environment

The Board recognises the importance of not only generating value for shareholders but also to contribute to wider society. We do this through a number of initiatives, as set out on page 46. We also monitor and manage our environmental impact, as set out on page 46.

Key decisions made by the Directors during the year

Dividends and share issues

During 2021, the Board agreed to a number of new share issues. FFHL Group Limited (Fairfax) subscribed for 8,299,909 new Brit Limited class B shares for a contribution of $31.1m and OMERS Administration Corporation (OMERS) subscribed for 92,364,532 new Brit Limited class A shares for a contribution of $375.0m.

The Board also considered and approved a $375.0m dividend in respect of its class B shares.

In considering these decisions, the Directors assessed Brit's ongoing underwriting strategy and capital requirements, and its obligation to act fairly between members. It was mindful of its agreed obligations to both its minority shareholder and to its majority shareholder. Brit also liaised closely with its principal shareholder with regard to this transaction, and took account of its views when determining the structure of the OMERS investment and the subsequent dividend payment.

Loss Portfolio Reinsurance

The Board considered and approved a loss portfolio reinsurance with RiverStone Managing Agency Limited, protecting Brit against adverse development on predominantly legacy years of account underwritten by Brit Syndicate 2987.

The Board considered the implications of this contract on Brit's stakeholders. It examined the terms of the contract and its intention to provide Brit with certainty of exit on discontinued lines and to reduce its exposure to US Casualty claims inflation. It concluded that it was in the interests of key stakeholders including its policyholders, members and employees.

Ki Financial Limited

In 2021, the Board approved further investment in Ki Financial Limited.

The Board considered Brit's immediate and longer-term strategic priorities, as well as the interests of its shareholders, and other stakeholders, including Lloyd's and the wider market. It concluded that opportunities presented by this ongoing initiative would position the Group and other stakeholders well for the longer term. Brit also liaised closely with its principal shareholder and with Ki management over this further investment. This two-way dialogue helped determine the quantum and form of the investment.

2020 financial statements and reserving position
The Directors approved the financial statements for the year ended 31 December 2020, on 16 February 2021. As part of this process, the Directors considered and approved the claims reserves held by the Group's underwriting entities.

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

2022 business plan and capital requirements
The Directors reviewed and approved the 2022 business plan. The plan included the Group's underwriting and investment strategy, together with the capital needed to support the plan.

The Directors considered the Company's immediate and longer-term strategic priorities, together with the risks facing the business. They also considered the needs and expectations of the Company's shareholders, the interest of its clients and employees, and those of the wider stakeholder group. After due discussion, the Directors concluded that the plans and attaching capital positioned the Company well for 2022 and the longer term.

Revolving credit facility
During 2021, the Board considered and approved amendments to the Group's revolving credit facility. The facility was extended by two years to 31 December 2025, with the letter of credit component availability extended to cover the 2022 and 2023 underwriting years. The wording of the facility was also amended to address the transition away from LIBOR.

The Board discussed the terms of the revised facility. They concluded that it the facility appropriately supported the Group's future plans and was in the interests of its members, employees and wider stakeholder base.

Ki letter of credit facility
The Board considered and approved amendments to the Ki letter of credit facility, extending it by two years to cover the 2022 and 2023 underwriting years, with pricing linked to the ESG rating of the Ki's investment portfolios.

The Board discussed the terms of the revised facility. They concluded that it the facility appropriately supported the Ki's future plans and was in the interests of its members, employees and wider stakeholder base. It also concluded that the structure of the facility was aligned to its ESG objectives, those of Ki and its capital providers, and Lloyd's. Brit liaised closely with Ki management and other Ki investors

Transfer of the RiverStone Management Pension and Life Assurance Plan (the Plan)
The Board discussed and agreed a proposal for the Group to assume the liabilities of the Plan from Riverstone Holdings Limited and RiverStone Management Limited, through a Flexible Apportionment Agreement (FAA).

In arriving at this decision, the Board considered the financial health of the Plan, and the interests and the potential impact on of all its key stakeholders in the shorter and longer terms. After due discussion, the Board concluded that it was in the interests of the wider Fairfax group to approve the transfer and that appropriate safeguards were in place to protect other stakeholders. Throughout the transfer process, Brit liaised with its principal shareholder, the Trustees of the Plan and the Plan's current employers (Riverstone Holdings Limited and RiverStone Management Limited). This ensured that the Plan was adequately funded before the date of transfer and ensured certain protections were agreed and put in place for both the Plan's members and for Brit. This transfer enabled our principal shareholder to complete a corporate transaction.

Acquisition of Camargue Underwriting Managers (Proprietary) Limited (Camargue)
In October, the Board proceeded with the completion of the acquisition of the remaining 50% of Camargue. Brit made an initial 50% strategic investment in Camargue in 2016 and Camargue has been a key trading partner of Brit for over 20 years. Camargue retains its independence, continuing to underwrite as a managing general underwriter on behalf of Brit and its other capacity providers.

This acquisition continues Brit's strategy of selective international expansion into niche specialty businesses with a strong track record in distribution and underwriting. It will provide added long-term value for our members, increasing revenue channels for the Group while cementing access to profitable underwriting risks. It also provides an integrated solution for our clients and helps foster the Group's business relationships with those clients. Through the acquisition process, Brit liaised closely with its principal shareholder and the management of Camargue throughout the transaction process to facilitate regulatory approval and a smooth transition to new ownership.

Approval of policies
During 2021, the Directors reviewed and approved the Company's key policies, including the Whistleblowing Policy, Financial Crime Policy and the Fit and Proper Policy.

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

governance

Directors' Report

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

Corporate Governance Report

This report explains our governance framework.

Modern Slavery and Human Trafficking Statement

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

directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2021.

Principal activities, review of business and other disclosures

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

Directors

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

Gordon Campbell

Matthew Wilson

Martin Thompson (appointed 03.11.2021)

Gavin Wilkinson (appointed 28.07.2021)

Mark Allan

Andrew Barnard

Andrea Welsch

Ken Miner (appointed 27.08.2021)

Statement of Directors' responsibilities

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that, to the best of their knowledge:

- The consolidated financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Dividends

On 7 September 2021, in accordance with the Brit Limited shareholders' agreement, the Company paid a dividend of $375.0m to the holder of its class B ordinary shares. The Directors do not recommend a final dividend.

Share capital

The Company's ordinary issued share capital at 31 December 2021 comprised two classes of ordinary shares, class A ordinary and class B ordinary, which are fully paid.

Voting rights

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

Articles of Association

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

Shareholders

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

Shareholder	Units	Class	% of total ordinary shares
FFHL Group Limited	577,137,562	B Ordinary	86.2
OMERS Administration Corporation	92,364,532	A Ordinary	13.8

During 2021, FFHL Group Limited subscribed for 8,299,909 new Brit Limited class B ordinary shares for $31.1m, as follows:

- On 06 July 2021, 1,627,907 Class B Ordinary Shares for $7.0m; and
- On 17 December 2021, 6,672,002 Class B Ordinary Shares for $24.1m.

On 27 August 2021, OMERS Administration Corporation subscribed for 92,364,532 new Brit Limited class A ordinary shares for $375.0m.

Significant agreements

The following agreement, which was in force at 31 December 2021, takes effect, alters or terminates on a change of control of the Company.

Revolving Credit Facility

The Group has a syndicated revolving credit facility (RCF) which provides for $450.0m of committed multi-currency financing. Amounts under the RCF can be drawn until 30 November 2025, and the RCF terminates on 31 December 2025, on which date all outstanding facilities must be repaid.

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

Employment

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

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

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

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

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

Energy consumption and greenhouse gas emissions

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

Political donations

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

Disclosure of information to the Company's auditor

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

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

Auditor

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

Events occurring after the reporting date

On 1 January 2022, the Group acquired 100% of the issued shares in RiverStone Corporate Capital 4 Limited ('RCC4'). RCC4 is a Lloyd's corporate member, with a principal activity of providing capital to Ki Syndicate 1618. As set out in Note 37, the Brit Group is the principal beneficiary of the economics of Ki Syndicate 1618 and RCC4 and, as such, RCC4 was consolidated by the Brit Group in 2021, prior to the formal acquisition of its issued shares. The purchase consideration was £1.

Going concern

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

- **Operational risk:** Including Brit's ability to work remotely and continue to provide a high level of service its customers.
- **Insurance risk:** Including Brit's reserving methodology and how it actively manages its portfolio to ensure it is appropriately positioned for both the pandemic and the recessionary economic conditions.
- **Investment and market risk:** Including the positioning of Brit's investment portfolio and expected returns.
- **Credit risk:** Including any evidence as to the financial impact of COVID-19 on our customers.
- **Solvency:** Including Brit's capital strength at 31 December 2021 and its track record of accessing additional capital from its ultimate parent.
- **Liquidity risk:** Including stress testing of liquid resources, access to sources of liquidity including undrawn RCF amounts, and RCF covenant headroom.

These risks are discussed in more detail on page 42.

directors' report

The Board also considered other factors including:

- **Brit's baseline 2022 financial plan:** For Brit's main underwriting platform, Syndicate 2987, 2022 GWP is forecast to grow by 11.8%. The Board noted that as in previous years, Brit continues to actively manage the portfolios by segmenting Classes into 'High Performing', 'Core Growth', 'Core New Initiatives', 'Core Opportunistic' and 'Portfolio Management'. Growth (excluding RARC) is driven primarily by the 'High Performing' and 'Core Growth' segments, while the largest increases in RARC are targeted on the weakest performing segments of the portfolio. In assessing the plan, the Board considered, amongst other factors:
  - **Brit's recent underwriting performance:** During 2021, Brit has demonstrated the strength of its underlying business with an attritional ratio of 47.7%. This strong ratio is partly driven by market conditions which continue to improve.
  - **Improving market conditions:** In 2021, Brit achieved an overall risk adjusted rate increase of 12.9%, giving total rate increases since 1 January 2018 of 33.1%. Further increases have been achieved to date in 2021.
  - **Brit's reserving policy and track record:** Brit has a policy of reserving on a 'conservative best estimate' basis and carrying an explicit risk margin above that 'conservative best estimate'. This policy has led to a track record of modest annual reserve releases. In 2021, this trend, first reported in 2004, continued with net releases of $100.1m (2020: $63.4m).
  - **Investment market conditions:** The Directors considered if the current low interest rate environment was appropriately reflected in the plan.
- **2022 outlook:** The Directors also considered the Group's outlook for 2022.

A review of the financial performance of the Group is set out on pages 22 to 32. The financial position of the Group, its cash flows and borrowing facilities are set out on pages 35 to 37.

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

Information included in the Strategic Report

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

- **Employee engagement**
  Disclosures regarding employee engagement can be found on pages 45 to 46.
- **Stakeholder engagement**
  Disclosures regarding stakeholder engagement can be found on pages 51 to 54.
- **Charitable donations**
  Disclosures regarding charitable donations can be found on pages 46 to 47.
- **Financial instruments**
  Details of the Group's risk management framework supporting our investment in financial instruments is set out on pages 38 to 43.
- **Environmental related disclosures**
  Disclosures environmental matters can be found on pages 47 to 50.

By order of the Board

Tim Harmer
Company Secretary
22 February 2022

Brit Limited – 08821629

corporate governance report

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

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

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

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

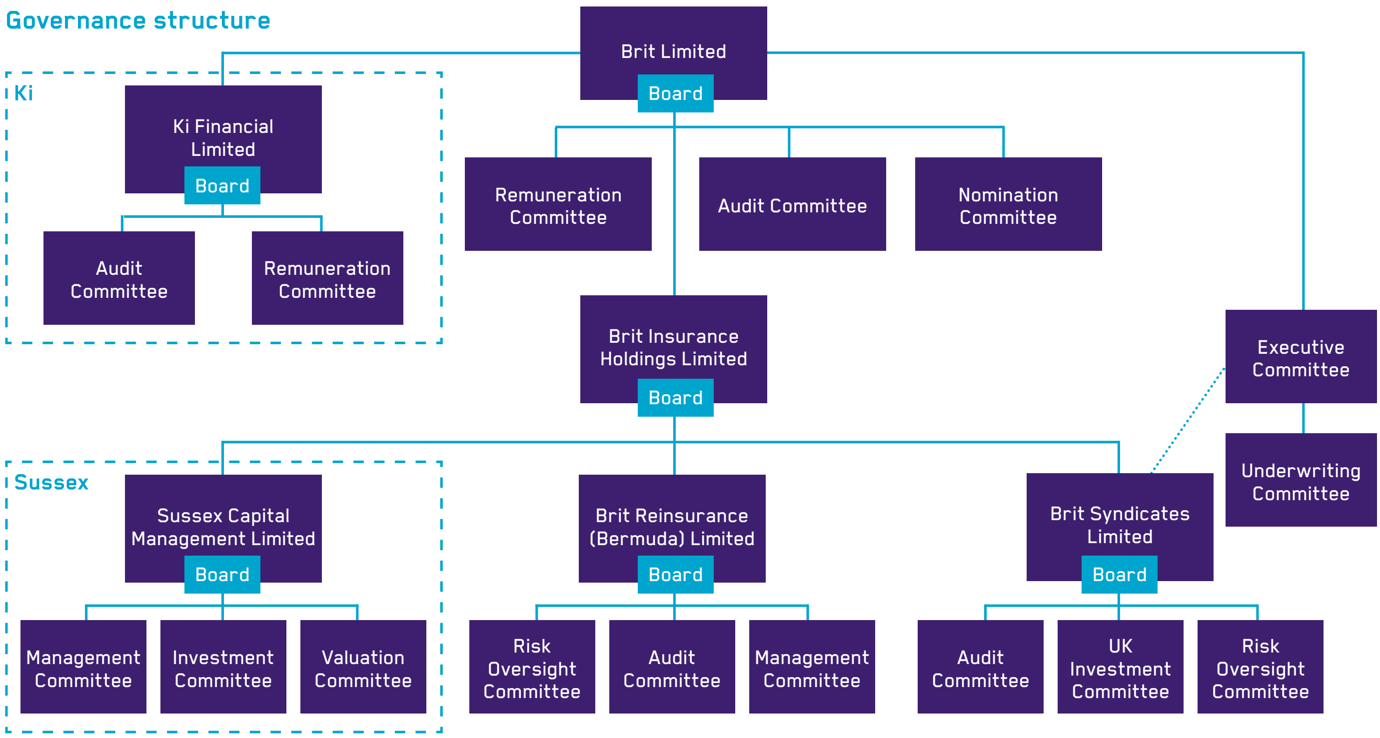
Group Chief Executive Officer
The Group Chief Executive Officer is responsible for implementing and executing the strategy of the Group and for generally running the Group's business. In September 2021, Matthew Wilson, the current Group Chief Executive Officer, took an indefinite leave of absence for health reasons. Martin Thompson has been appointed as interim Group Chief Executive Officer.

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

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

Brit Governance Structure as at 31 December 2021
The Governance structure, shown below, is deeply embedded within the business. The Company's main operating subsidiaries have in place governance principles in accordance with the Group's Memorandum on Corporate Governance.

Governance structure



Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

By order of the Board

Tim Harmer
Company Secretary
22 February 2022

modern slavery and human trafficking statement

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

Our business

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

We operate globally via our own international distribution network and broker partners. Insurance represents 77.2% of our gross written premium, with the remainder coming from treaty reinsurance.

The average number of employees working at Brit during 2021, including non-executive Directors, was 819 and the result after tax in 2021 was a profit of $236.9m.

Our supply chains

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

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

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

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

Our policies on slavery and human trafficking

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

Due diligence processes for slavery and human trafficking

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

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

Training

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

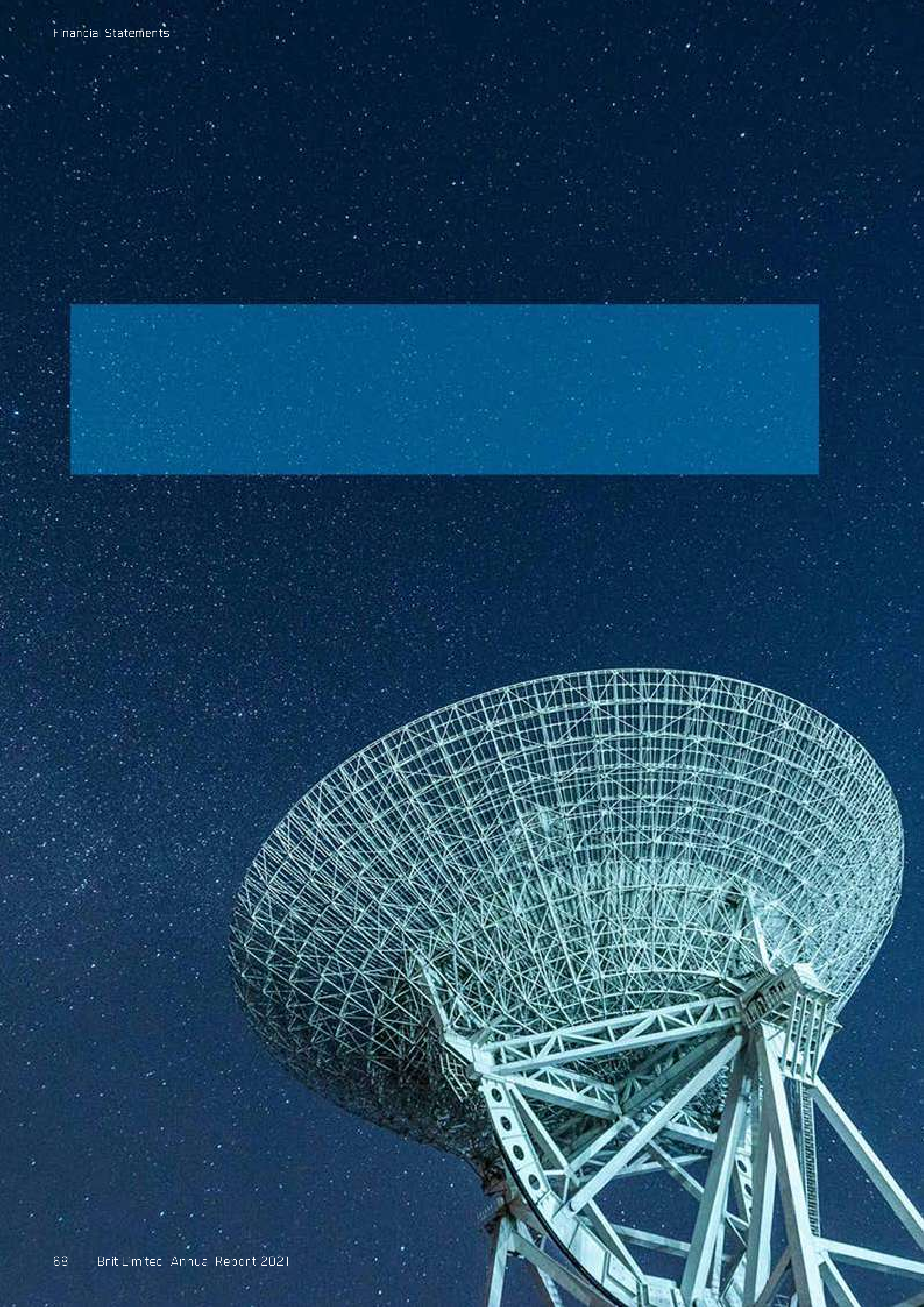
Our commitment

This statement is made pursuant to section 54(1) of the Modern Slavery Act 2015 and constitutes our Group's slavery and human trafficking statement for the financial year ending 31 December 2021.

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

By order of the Board

Tim Harmer
Company Secretary



22 February 2022

financial statements

Independent Auditors' Report to the members of Brit Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Brit Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- The Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Parent Company Statement of Financial Position as at 31 December 2021; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Parent Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 14, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We performed full scope audit procedures over six of the Group's components, namely, Brit Syndicates Limited – Syndicate No. 2987, Brit Syndicates Limited – Syndicate No. 2988, Brit Syndicates Limited – Syndicate 1618, Brit Limited, Brit Insurance Holdings Limited and Brit Reinsurance (Bermuda) Limited;
- For certain other components, we performed audit procedures over specified financial statement line item balances; and
- For the remaining components that were not inconsequential, analytical procedures were performed by the Group engagement team.

Key audit matters

- Valuation of the gross claims incurred but not reported (IBNR) component of insurance contracts, and the associated reinsurers' share; (Group)
- Inappropriate revenue recognition (including fraud risk); (Group)
- Valuation of investments with valuations modelled using unobservable inputs; (Group)
- Valuation of the pension scheme transferred into the Group from the Riverstone Group during the year; (Group) and
- Valuation of the deferred tax asset. (Group)

Materiality

- Overall Group materiality: $18.06m (2020: $14.79m) based on 1% of the combined operating ratio. This represents the total by which net operating expenses and/or net claims incurred would have to fluctuate to move the combined operating ratio ('COR') by 1%.
- Overall Company materiality: $11.15m (2020: $14.79m) based on 1% of total assets (net of intercompany assets and liabilities), capped at the Group materiality level.
- Performance materiality: $13.55m (2020: $11.09m) (Group) and $8.36m (2020: $11.09m) (Company).

The scope of our audit

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

Key audit matters

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

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

The valuation of the pension scheme transferred into the Group from the Riverstone Group during the year and the valuation of the deferred tax asset are new key audit matters this year. The impact of Covid-19, which was a key audit matter last year, is no longer included because the impact of the pandemic on the Group and its performance has reduced significantly in the year relative to the prior year. In addition, reference to non-standard earnings patterns is not included in the key audit matter relating to inappropriate revenue recognition as earning patterns remained consistent with the prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of the gross claims incurred but not reported (IBNR) component of insurance contracts, and the associated reinsurers' share; (Group) See notes 2.5.1, 3.2, 4.1.3 and 22 of the Group financial statements for disclosures of related accounting policies, judgements and estimates. The gross IBNR component of insurance contracts, and the associated reinsurers' share, are material balances within the financial statements which are judgemental and complex to calculate. These are a best estimate of all claims incurred but not reported at a given date, regardless of whether these have been reported to the Group. There are varying methods which can be adopted in the estimation of gross IBNR and the associated reinsurers' share, and these methods are underpinned by a series of assumptions selected by the Group. These can rely on a large degree of judgement and relatively small changes in these assumptions can lead to significant movements in gross IBNR and the associated reinsurers' share.	With the assistance of actuarial specialists, we performed the following: • Understood, assessed and tested the design and operational effectiveness of key controls over the Group's estimation of gross IBNR and the associated reinsurers' share. This included controls over the extraction of source data supporting management's calculations from the underlying systems, and the review and approval of the gross IBNR and the associated reinsurers' share; • Tested, on a sample basis, the underlying source data being claims incurred and claims payments to supporting documentation; • Developed a point estimate of gross IBNR (and the associated reinsurers' share) related to non-catastrophe claims. We compared our estimates to those booked by management, and in all those cases where significant differences were identified, we obtained explanations. We considered the results of this exercise in concluding on the reasonableness of management's estimates; and • In relation to catastrophe events, we understood the approach used to establish the gross IBNR and the associated reinsurers' share and the consistency of its application across the Group. For a sample of business divisions we tested the process by which management identified exposed insurance contracts, and assessed key assumptions used by management in arriving at the gross IBNR and the associated reinsurers' share. In concluding on the reasonableness of management's estimates, we also considered PwC's market view for major events. Based on the work performed, the valuation of the gross IBNR and the associated reinsurers' share was consistent with the evidence obtained.

Independent Auditors' Report to the members of Brit Limited

Key audit matter	How our audit addressed the key audit matter
Inappropriate revenue recognition (including fraud risk) (Group) See notes 2.5.1, 3.3, and 5 of the Group financial statements for disclosures of related accounting policies, judgements and estimates. Auditing standards assume a rebuttable presumption that there is a significant risk of fraud in revenue recognition in all businesses. We have not rebutted the risk of fraud in revenue recognition and we have determined the key risk of fraud in this area to be the estimation of pipeline premium (as it involves judgement) and unusual journals to revenue. The Group recognises a material amount of pipeline premium estimates in its financial statements using an actuarial technique applied to historic premium data in order to derive premium development factors. These are compared to underwriter estimates to arrive at the final booked written premium. Journal entries could be used to inappropriately recognise revenue.	We tested the pipeline premium estimates by undertaking the following work: • Understood, assessed and tested the design and operating effectiveness of the governance and controls over the monitoring of pipeline premium estimates; • Together with our actuarial specialists, we reprojected premiums by class of business and by underwriting year. Where there were significant differences to management's booked premium estimates on 2020 and prior underwriting years, we understood and assessed the reasons for these differences. For premium estimates on the 2021 underwriting year, we understood how management derived them and challenged them accordingly based on our understanding of the business; and • Tested the current calendar year data used in the actuarial projections to source systems, and tested that historical data was consistent year-on-year. Based on the above procedures the pipeline premium estimates were found to be consistent with the evidence obtained. We also tested unusual journals to revenue in the year. There were no unsupported journals identified in our testing.
Valuation of investments with valuations modelled using unobservable inputs; (Group) See notes 2.5.5, 3.6, 4.2, and 24 of the Group financial statements for disclosures of related accounting policies, judgements and estimates. The Group investment portfolio contains $269.9m of Level 3 investments measured at fair value and whose fair value is determined using unobservable inputs. Fair values for these investments can only be calculated using estimates or risk adjusted value ranges and accordingly these investments require additional audit focus as they require a greater degree of judgement to value.	We coordinated with our internal valuation specialists based in Toronto who centrally tested the valuation of Level 3 investments. We performed the following: • Assessed and tested management's controls over the valuation of Level 3 investments, including management review of models and key inputs; and • For a sample of investments, we developed an estimate of valuation, using our own models and assumptions and market data. We then developed a range around the estimate based on the features of the investment, and compared this to management's valuation. Based on the above procedures, the valuation of the level 3 investments were consistent with the evidence obtained.
Valuation of the pension scheme transferred into the Group from the Riverstone Group during the year; (Group) See notes 2.5.12, 3.7, and 23 of the Group financial statements for disclosures of related accounting policies, judgements and estimates. During the year, the Group took on the responsibility for a defined benefit obligation, following the transfer of a pension scheme from the Riverstone Group. The fair value of the defined benefit liabilities are estimated using an actuarial valuation which employs a number of subjective assumptions such as inflation, discount rate and mortality. Changes in these assumptions can have a material impact on the associated liabilities. The fair value of the associated defined benefit pension assets is less subjective.	With the assistance of actuarial pension experts we performed the following: • Examined contractual documentation evidencing the transfer of the scheme and the related pension obligation into the Group, and assessed whether accounting for the scheme was consistent with the substance of the transaction; • Assessed the appropriateness of the significant actuarial assumptions used in determining the valuation of the defined benefit liabilities at the point of transfer; and • Independently confirmed and revalued the associated defined benefit assets at the point of transfer. Based on the work performed, the valuation of the recorded defined benefit obligation transferred in to the Group was consistent with the evidence obtained. We rolled forward the above work in our assessment of the valuation of the recorded defined benefit obligation as at the year end noting it to be consistent with the evidence obtained.

Key audit matter	How our audit addressed the key audit matter
Valuation of the deferred tax asset (Group) See notes 2.5.11, 3.9, and 21 of the Group financial statements for disclosures of related accounting policies, judgements and estimates. At 31 December 2021, the Group has recognised a DTA of $47.9m, with an unrecognised DTA of $71.3m, in relation to historical losses incurred by the Group. A DTA is recognised to the extent that future profits are considered likely to be available to utilise the asset. The extent of future profits is subject to a number of significant assumptions relating to the future performance of the Group.	We performed the following procedures, together with our tax specialists in order to assess the valuation of the DTA: • Assessed management's calculation of the DTA to test whether it was calculated in accordance with current tax legislation and reflected enacted corporation tax rates; • Reviewed management's assessment of historic forecasts to determine the robustness of management's forecasting process, and therefore the reliability of forecasts used in the DTA recoverability assessment; • Assessed the reasonableness of assumptions relating to future forecasts; and • Agreed inputs to management's calculation to audited financial information and approved business forecasts as appropriate. Based on these procedures, the valuation of the DTA was consistent with the evidence obtained.

How we tailored the audit scope

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

Brit is a global specialty insurer and reinsurer, present in Lloyd's of London and has operations in the United States of America, Singapore and Bermuda, and writes insurance business internationally. The Group is structured into eight segments (see Note 5 to the Group financial statements) and is a consolidation of over 28 separate legal entities. A full scope audit was performed for six significant components located in the United Kingdom and Bermuda. The six full scope audit components are: (i) Brit Syndicates Limited - Syndicate No. 2987, (ii) Brit Syndicates Limited – Syndicate No. 2988, (iii) Brit Syndicates Limited – Syndicate No. 1618, (iv) Brit Limited, (v) Brit Insurance Holdings Limited, and (vi) Brit Reinsurance (Bermuda) Limited. For certain other components, we identified account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Group financial statements, and performed financial statement line item audit procedures over these specified balances. Analytical procedures over the remaining components that were not inconsequential were performed by the Group engagement team. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or by the component audit teams, being PwC Canada and PwC Bermuda, who operated under our instruction. Where the work was performed by component audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained. The Group engagement team had regular interaction with the component teams during the audit process. The engagement leader and senior members of the Group engagement team reviewed in detail all reports with regards to the audit approach and findings submitted by the component auditors.

Materiality

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

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

	Financial statements – Group	Financial statements – Company
Overall materiality	$18.06m (2020: $14.79m).	$11.15m (2020: $14.79m).
How we determined it	1% of the combined operating ratio ('COR'). This represents the total by which net operating expenses and/or net claims incurred would have to fluctuate to move the combined operating ratio by 1%.	1% of total assets (net of intercompany assets and liabilities), capped at the Group materiality level.
Rationale for benchmark applied	A primary performance measure for the Group is the COR and therefore this is an appropriate and generally accepted auditing benchmark for insurance Group's.	Due to the nature of operations of the parent Company, i.e. a holding company, total assets is an appropriate and generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between $0.21m and $18.06m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to $13.55m (2020: $11.09m) for the Group financial statements and $8.36m (2020: $11.09m) for the Company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $0.9m (Group audit) (2020: $0.74m) and $0.56m (Company audit) (2020: $0.74m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Inquiries of Directors and relevant members of management in relation to going concern;
- Assessing the Group and Company's financial, capital & solvency and liquidity positions as of 31 December 2021, including considering the impact of Covid-19 on the Group and Company; and
- Tracing capital contributions into the Group to supporting documentation.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, those regulations set by the Council of Lloyd's and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with the Board, management, internal audit and the compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the whistleblowing helpline and management's investigation of such matters;
- Reviewing relevant meeting minutes including those of the Board, the Audit Committee, the Reserving Committee and correspondence with regulatory authorities, including the Council of Lloyd's, the Financial Conduct Authority and the Prudential Regulatory Authority;
- Testing and challenging, where appropriate, the assumptions and judgements made by management in their significant accounting estimates, for example, in relation to the valuation of the gross claims incurred but not reported component of insurance contracts and the associated reinsurers' share, and the valuation of the deferred tax asset;
- Identifying and testing journal entries identified as potential indicators of fraud, in particular, consolidation journals, those with unexpected account combinations, those posted by senior management or unexpected users, those with unusual words, post close entries or unusually backdated journals; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

Independent Auditors' Report to the members of Brit Limited

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 14 June 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2016 to 31 December 2021.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Paul Pannell
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

22 February 2022

contents

Introduction to the Primary Statements

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

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

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

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

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

contents

Index to the Consolidated Financial Statements

consolidated income statement

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Revenue			
Gross premiums written	5	**3,238.3**	2,424.4
Less premiums ceded to reinsurers	5	**(1,240.0)**	(648.8)
Premiums written, net of reinsurance		**1,998.3**	1,775.6
Gross amount of change in provision for unearned premiums		**(370.4)**	(52.2)
Reinsurers' share of change in provision for unearned premiums		**126.4**	(12.7)
Net change in provision for unearned premiums		**(244.0)**	(64.9)
Earned premiums, net of reinsurance		**1,754.3**	1,710.7
Investment return	6	**167.2**	56.5
Return on derivative contracts	7	**(15.7)**	(1.1)
Gain on deconsolidation of subsidiaries	8	**19.8**	–
Gain on business combination	38	**6.1**	–
Other income	9	**78.3**	14.1
Gains / (losses) on other financial liabilities	9	**2.5**	(6.0)
Total revenue		**2,012.5**	1,774.2
Expenses			
Claims incurred:			
Claims paid:			
Gross amount		**(1,321.5)**	(1,326.8)
Reinsurers' share		**437.6**	391.4
Claims paid, net of reinsurance		**(883.9)**	(935.4)
Change in the provision for claims:			
Gross amount		**(402.7)**	(417.6)
Reinsurers' share		**405.0**	113.9
Net change in the provision for claims		**2.3**	(303.7)
Claims incurred, net of reinsurance	5	**(881.6)**	(1,239.1)
Acquisition costs	11	**(708.3)**	(598.7)
Other operating expenses	11	**(177.6)**	(137.5)
Net foreign exchange losses	10	**(1.1)**	(7.8)
Total expenses excluding finance costs		**(1,768.6)**	(1,983.1)
Operating profit/(loss)		**243.9**	(208.9)
Finance costs	13	**(18.3)**	(23.6)
Share of net profit of associates	15, 38(c)	**1.7**	2.0
Profit/(loss) on ordinary activities before tax		**227.3**	(230.5)
Tax credit / (charge)	17(a)	**9.6**	(1.5)
Profit/(loss) for the year		**236.9**	(232.0)
Profit/(loss) attributable to:			
Owners of the parent		**248.5**	(229.3)
Non-controlling interests	16	**(11.6)**	(2.7)

All profits/(losses) arise from continuing operations.

The accompanying Notes on pages 86 to 170 are an integral part of the consolidated financial statements.

consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Profit/(loss) for the year		**236.9**	(232.0)
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of post-employment benefit obligations	23	**18.7**	(5.5)
Deferred tax (loss) / gain relating to remeasurements of post-employment benefit obligations	17(b)	**(6.5)**	1.8
Items that may be reclassified to profit or loss in subsequent periods:			
Change in unrealised foreign currency translation (losses) / gains on foreign operations		**(1.1)**	2.3
Total other comprehensive income		**11.1**	(1.4)
Total comprehensive income recognised for the year		**248.0**	(233.4)
Total comprehensive income for the year attributable to:			
Owners of the parent		**259.6**	(230.7)
Non-controlling interests	16	**(11.6)**	(2.7)
Total comprehensive income for the year		**248.0**	(233.4)

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

consolidated statement of financial position

At 31 December 2021

	Note	31 December 2021 $m	31 December 2020 $m
Assets			
Intangible assets	18	**205.3**	181.2
Property, plant and equipment	19	**57.6**	60.5
Deferred acquisition costs	20	**321.8**	247.3
Investments in associated undertakings	15	**15.0**	20.5
Reinsurance contracts	22	**2,291.2**	1,764.1
Employee benefits	23	**113.8**	48.8
Deferred taxation	21	**47.9**	49.8
Current taxation		**10.6**	8.5
Financial investments	24	**4,015.0**	4,056.6
Derivative contracts	25	**15.1**	14.9
Insurance and other receivables	26	**1,615.3**	1,302.0
Cash and cash equivalents	28	**1,510.3**	775.7
Assets classified as held for sale	29	**–**	17.8
Total assets		**10,218.9**	8,547.7
Liabilities and Equity			
Liabilities			
Insurance contracts	22	**6,532.9**	5,813.0
Borrowings	30	**227.9**	314.5
Other financial liabilities	31	**95.8**	62.0
Provisions		**2.4**	2.3
Deferred taxation	21	**12.9**	9.9
Current taxation		**3.8**	–
Derivative contracts	25	**12.5**	9.2
Insurance and other payables	32	**1,184.1**	620.7
Liabilities directly associated with assets classified as held for sale	29	**–**	1.8
Total liabilities		**8,072.3**	6,833.4
Equity			
Called up share capital	33	**10.0**	8.6
Share premium	33	**1,432.6**	1,027.9
Capital redemption reserve		**1.0**	1.0
Capital contribution reserve		**28.5**	–
Foreign currency translation reserve		**(85.2)**	(84.1)
Retained earnings		**525.5**	639.2
Total equity attributable to owners of the parent		**1,912.4**	1,592.6
Non-controlling interests	16	**234.2**	121.7
Total liabilities and equity		**10,218.9**	8,547.7

The accompanying Notes on pages 86 to 170 are an integral part of the consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on 22 February 2022 and were signed on its behalf by:

Martin Thompson
Interim Group Chief Executive Officer

Gavin Wilkinson
Group Chief Financial Officer

consolidated statement of cash flows

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Cash flows from operating activities			
Cash used in operations	35	**622.5**	(414.3)
Tax received		**(8.1)**	2.7
Interest received		**57.9**	63.3
Dividends received		**10.1**	6.3
Purchase of shares for share-based payment schemes		**(16.9)**	(3.0)
Net cash outflows from operating activities		**665.5**	(345.0)
Cash flows from investing activities			
Purchase of intangible assets	18	**(12.8)**	(6.5)
Purchase of property, plant and equipment	19	**(1.7)**	(1.2)
Disposal of subsidiary undertakings, net of cash disposed	8	**31.8**	–
Acquisition of subsidiary undertaking, net of cash disposed	38	**(6.4)**	–
Dividends from associated undertakings		**0.7**	1.0
Net cash outflows from investing activities		**11.6**	(6.7)
Cash flows from financing activities			
Proceeds from issue of shares	33	**406.1**	524.0
Drawdown/(repayment) on revolving credit facility		**(85.0)**	(10.0)
Interest paid		**(9.7)**	(14.0)
Transactions with non-controlling interests	16	**124.0**	124.0
Dividends paid to ultimate parent company	34	**(375.0)**	(20.6)
Net cash inflows from financing activities		**60.4**	603.4
Net (decrease)/increase in cash and cash equivalents		**737.5**	251.7
Cash and cash equivalents at the beginning of the year		**775.7**	520.1
Effect of exchange rate fluctuations on cash and cash equivalents		**(2.9)**	3.9
Cash and cash equivalents at the end of the year	28	**1,510.3**	775.7

The accompanying Notes on pages 86 to 170 are an integral part of the consolidated financial statements.

consolidated statement of changes in equity

For the 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	36	–	–	–	–	–	0.6	0.6	–	0.6
Issuance of share capital	33	1.4	404.7	–	–	–	–	406.1	–	406.1
Dividend	34	–	–	–	–	–	(375.0)	(375.0)	–	(375.0)
Contribution from parent in relation to the acquisition of the Riverstone pension plan	23	–	–	–	28.5	–	–	28.5	–	28.5
Transactions with non-controlling interests	16	–	–	–	–	–	–	–	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 on pages 86 to 170 are an integral part of the consolidated financial statements.

consolidated statement of changes in equity

For the year ended 31 December 2020

	Note	Called up share capital $m	Share premium $m	Capital redemption 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 2020		7.0	505.5	1.0	(86.4)	892.8	1,319.9	–	1,319.9
Total comprehensive income recognised		–	–	–	2.3	(233.0)	(230.7)	(2.7)	(233.4)
Issuance of share capital	33	1.6	522.4	–	–	–	524.0	–	524.0
Dividend	34	–	–	–	–	(20.6)	(20.6)	–	(20.6)
Transactions with non-controlling interests	16	–	–	–	–	–	–	124.4	124.4
At 31 December 2020		8.6	1,027.9	1.0	(84.1)	639.2	1,592.6	121.7	1,714.3

Nature and Purpose of Group Reserves

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

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

Capital contribution reserve: The balance represents the amount by which the Group has benefited from asset transfers or contributions from the owners of the parent company, for which no shares have been issued in exchange.

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

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

The accompanying Notes on pages 86 to 170 are an integral part of the consolidated financial statements.

notes to the consolidated financial statements

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

1 General information

The consolidated financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 22 February 2022. The Group's principal activity is the underwriting of general insurance and reinsurance business.

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

2 Accounting policies and basis of preparation

2.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2021 have been prepared in accordance with UK-adopted international accounting standards. The accounting policies of the Group have been applied consistently to all the years presented, unless otherwise stated.

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

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

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

The Directors have considered various factors in order to be satisfied that a going concern basis of preparation is appropriate. Such factors include, but are not limited to, the reserving policy and track record of the Group, including recent underwriting performance, improving market conditions, and the financial plans of the Group. Additionally, the capital position of the Group has been bolstered by capital injections of $31.1m from the ultimate parent company, Fairfax Financial Holdings Limited and $375.0m from OMERS Administration Corporation, the defined benefit pension plan for municipal sector employees in the Province of Ontario, Canada. More detail on these considerations can be found on page 6 of the Strategic Report.

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

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

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2021:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)
- Interest Rate Benchmark Reform – IBOR 'Phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

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

(b) New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following amendments to standards were in issue but not yet effective:

Amendment	Effective
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	Periods commencing on or after 1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	Periods commencing on or after 1 January 2022
Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)	Periods commencing on or after 1 January 2022
References to Conceptual Framework (Amendments to IFRS 3)	Periods commencing on or after 1 January 2022
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	Periods commencing on or after 1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	Periods commencing on or after 1 January 2023
Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	Periods commencing on or after 1 January 2023

These amendments, which have not been early adopted, are not expected to have a material impact on the Group in future reporting periods.

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

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

IFRS 9 'Financial Instruments'

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

In September 2016 the IASB issued amendments to IFRS 4 that provided two approaches for insurers applying the requirements of IFRS 9, including an optional temporary exemption from applying IFRS 9 until 2021 for those companies whose activities are predominantly connected with insurance. In line with the deferral of the effective date of IFRS 17 to 1 January 2023 the IASB has agreed to extend the IFRS 9 exemption for insurers to the same date. Brit has taken advantage of this temporary exemption on the basis that, at the time of its initial assessment, the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 80% and it does not engage in significant activity unconnected with insurance. The Group will apply IFRS 9 for the period beginning 1 January 2023.

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17, a comprehensive standard for the recognition, measurement, presentation and disclosure of insurance contracts, which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities. IFRS 17 requires entities to measure insurance contracts using current estimates of discounted fulfilment cash flows, including the discounting of loss reserves using one of three measurement models.

IFRS 17 replaces the existing insurance contracts accounting standard, IFRS 4, and is effective for annual periods beginning on or after 1 January 2023, with early application permitted. The standard must be applied retrospectively with restatement of comparatives unless impracticable. This standard is yet to be endorsed by UK.

2 Accounting policies and basis of preparation (continued)

Brit has initiated an implementation project which is currently assessing the impact of adopting IFRS 17 on its financial statements and which will determine both the operational and reporting effects upon the business. The project includes a focus on implementing information technology systems to conduct a parallel run in 2022 and on evaluating the impact that IFRS 17 will have on the consolidated financial statements, and will ensure that Brit Limited can meet all of its reporting requirements in 2023.

2.2 Basis of consolidation

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

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

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

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

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% and 57.67% of the capital for the 2020 and 2021 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.

2.3 Product classification

Insurance contracts are those contracts that transfer significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

2.4 Business combinations

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

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

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

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

Any contingent consideration will be recognised at fair value at the acquisition date 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).

2.5 Other accounting policies

2.5.1 Insurance contracts

(a) Premiums

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less an allowance for cancellations. Premiums are accreted to the income statement on a *pro rata* basis over the term of the related policy, except for those contracts where the period of risk differs significantly over the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the income statement on a *pro rata* basis over the term of the original policy to which it relates. Premiums are shown net of premium taxes and other levies on premiums. Pipeline premium estimates are derived from ultimate premium estimates which are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

(b) Profit commissions

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

(c) Deferred acquisition costs

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

2 Accounting policies and basis of preparation (continued)

(d) Claims incurred

Claims incurred comprise claims and claims handling costs paid in the year and changes in the outstanding claims provisions, including provisions for claims incurred but not reported and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

(e) Outstanding claims provisions

Outstanding claims represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the date of the statement of financial position, including provision for claims incurred but not reported, less any amounts paid in respect of those claims. The Group does not discount its liabilities for unpaid claims, the ultimate cost of which cannot be known with certainty at the date of the statement of financial position.

(f) Provision for unearned premiums

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

(g) Liability adequacy tests

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

(h) Reinsurance

The Group assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the income statement along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. Losses occurring during policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the income statement on a *pro rata* basis over the term of the original policy to which they relate.

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

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

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

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

2.5.2 Revenue recognition

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

(a) Management fee income

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

(b) Underwriting agency fee income

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

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

2.5.3 Investment return

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

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

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

2.5.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred, and the transfer qualifies for derecognition under a combination of risks and rewards and control tests. A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

2.5.5 Investments

The Group has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Group's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Group's Directors and key managers on a fair value basis.

2 Accounting policies and basis of preparation (continued)

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

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

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

2.5.6 Derivatives

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

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

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

2.5.7 Intangible assets

(a) Goodwill

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

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

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

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

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

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

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

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

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

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

Land	Indefinite
Buildings	30 years
Office refurbishment costs, office machinery, furniture and equipment	5-15 years
Computers, servers, data storage devices, networks and other IT infrastructure	3-5 years

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

2 Accounting policies and basis of preparation (continued)

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

2.5.9 Impairment

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

If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is based on discounting cash flows at the Group's weighted average cost of capital which is loaded where significant uncertainties exist. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Cash flow forecasts have been performed to account for the impact of climate change.

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

2.5.10 Cash and cash equivalents

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

2.5.11 Income taxes

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

2.5.12 Employee benefits

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

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

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

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

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

On 18 August 2021, the Group assumed responsibility for the liabilities of the RiverStone Management Pension and Life Assurance Plan (the Plan) from Riverstone Holdings Limited and RiverStone Management Limited, through a Flexible Apportionment Agreement (FAA). No consideration was paid by the Group, with the transfer taking place as part of wider Fairfax group transactions. The Group has recorded a pension surplus in respect of the Plan, which is recognised as an asset in the statement of financial position, with a corresponding capital contribution recorded in equity.

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

2.5.13 Share-based payments

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

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

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

2.5.14 Provisions and contingencies

Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made at the date of the statement of financial position.

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

2 Accounting policies and basis of preparation (continued)

2.5.15 Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption, then it classifies the sublease as an operating lease. The Group recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. The lessor will derecognise the carrying amount of the underlying asset (i.e. right-of-use-asset) that relates to the sublease and the difference between this and the net investment in lease is recognised in the income statement. Subsequently, finance income will be recognised over the lease term with a corresponding increase in the net investment in the lease. Any cash received by the Group is recorded as a reduction in the net investment in the lease.

2.5.16 Foreign currency translation

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

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

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

2.5.17 Borrowings

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

2.5.18 Other financial liabilities

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

2.5.19 Segmental reporting

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

2.5.20 Other receivables

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

2 Accounting policies and basis of preparation (continued)

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

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

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

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

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

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

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

3 Critical accounting estimates and judgements in applying accounting policies

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

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

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

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

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

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

The results of the external audit work conducted in relation to reserves are presented to both the BSL Reserving Committee and the Audit Committee with key assumptions, methodologies and uncertainties also highlighted. This provides both committees with an independent view of reserves compared to the recommendations of the internal actuarial department.

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

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

Brit has adopted a comprehensive approach to reserving for COVID-19 related losses, in line with its policy of reserving on a 'conservative best estimate' basis and carrying an explicit risk margin above that 'conservative best estimate'. Our detailed analysis of the principal exposed classes for the year-ended 31 December 2021 resulted in net COVID-19 related losses of $292.9m (2020: $271.4m). Our main exposures to COVID-19 relate to our Contingency and Casualty Treaty accounts, with lower levels of exposure in Property, Property Treaty and Personal Accident. There remains uncertainty around losses from the COVID-19. We would expect the level of uncertainty around Contingency to reduce over time, however, within areas of the account such as Casualty Treaty, Property Treaty and Open Market Property the ultimate loss outcome is still to emerge and will be influenced by factors such as coverage issues and the interpretation of contract wording.

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

The carrying value at the date of the statement of financial position of gross claims reported and loss adjustment expenses and claims incurred but not reported were $5,140.9m (2020: $4,792.7m) as set out in Note 22 to the financial statements. The amount of reinsurance recoveries estimated at that date is $1,894.4m (2020: $1,493.0m).

3.3 Estimation of pipeline premiums

Written premiums include pipeline premiums of $874.1m (2020: $725.3m) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are derived from ultimate premium estimates which are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

3.4 Estimation involved in impairment testing of intangible assets

Intangible assets with indefinite useful lives are tested for impairment on an annual basis in accordance with IAS 36 'Impairment of Assets'. Determining the assumptions used in the test requires estimation. The calculations use projected profit streams based on cash flow forecasts and are approved by management. The indefinite useful life intangible assets of the Group consist of goodwill, syndicate participation rights, trade names and US state authorisation regulatory licenses. The carrying amount at the date of the statement of financial position was as follows: goodwill: $61.3m (2020: $45.9m); trade names: $1.3m (2020: $0.5m); and syndicate participation rights: $70.8m (2020: $70.8m). Additionally, as at 31 December 2020, $7.5m of regulatory licenses were recorded in the statement of financial position within the line 'Assets classified as held for sale'. In 2021, these were disposed as part of the disposal of Commonwealth Insurance Company of America.

For further information on intangible assets, refer to Note 18.

3.5 Judgements made in respect of lease accounting

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

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

3.6 Estimation and judgements in respect of fair values of financial investments

Financial investments are carried in the statement of financial position at fair value. The carrying amount of financial investments at the date of the statement of financial position was $4,015.0m (2020: $4,056.6m). Determining the fair value of certain investments requires estimation.

The Group value investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS 13 'Fair Value Measurement'. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (level three). To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and, accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one. At 31 December 2021, financial investments amounting to $269.9m (2020: $182.6m) were classified as level three.

The classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Any change to investment valuations may affect our results of operations and reported financial condition. For further information, refer to Note 24.

3.7 Estimation of defined benefit plan assets or obligations

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

The carrying amount of the pension asset at the date of the statement of financial position was $113.8m (2020: $48.8m). For further information, refer to Note 23.

3.8 Judgements in respect of the consolidation of structured entities

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

The Group is, or has been, exposed to variability of returns from the activities of these entities both through its direct investments in the vehicles and through the receipt of fee income from services provided to those entities.

As at 31 December 2021, in respect of the Sussex special purpose vehicles, that exposure was of a significance that it indicates that the Group is acting as a principal when considered alongside additional factors including the design of the structures in which those entities have been established, their business models, and a range of other qualitative factors in determining whether the criteria for consolidation are met. Consequently, the Group has continued to consolidate these entities (or relevant segregated accounts or protected cells thereof) during the financial year.

The Group's investment in Versutus Limited was divested during the year and, as such, ceased to be consolidated from the date of that divestment.

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

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

The deferred tax asset includes an amount of $18.1m (2020: $52.5m) which relates to carried forward tax losses in respect of Lloyd's undeclared year of account losses for 2019, 2020 and 2021 which will be taxed under the Lloyd's declaration basis in the years 2022, 2023 and 2024 respectively.

The Group has concluded that the deferred tax asset is recoverable based on the Lloyd's approved plan for the year of account 2022 and forecast profits for the Brit Group UK entities which are available for group relief. These plans have been adjusted to reflect the actual performance or prior years against their initial approved plans. The losses can be carried forward indefinitely and have no expiry date, however a further deferred tax asset of $71.3m (2020: $43.9m) has not been recognised as an asset on the basis that it is not yet possible to measure it reliably due to further work required to forecast results beyond 2028 and the year of account 2025.

4 Risk management policies

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

4.1 Insurance risk

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

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

4.1.1 Underwriting risk

(a) Introduction

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

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

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

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

The Group also writes business through the Sussex Capital collateralised reinsurance platform. Through Sussex Re Limited the platform writes direct collateralised property catastrophe reinsurance in addition to providing collateralised reinsurance to Brit's Property Treaty portfolio. Please refer to section 4.10 for details on the governance structure relevant to the Sussex platform.

(b) Controls over underwriting strategy

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

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

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

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

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

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

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

(c) Underwriting risk profile

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

The Group underwrites a well-diversified portfolio across multiple regions and classes. While underlying risk and the policyholder may be situated anywhere in the world, 84% of the GWP for the Group in 2021 was sourced in London. Other business written includes that sourced through a wholly owned service company in the United States, the business of which accounted for 13% of the Group's annual GWP in 2021. The Group also writes business from its office in Bermuda, with Brit Global Specialty Bermuda (BGSB) accounting for 3% of the Group's annual GWP in 2021. In 2021, 38% of the Group's GWP was reinsured to third parties.

4 Risk management policies (continued)

(d) Geographical concentration of premium

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

	Gross premiums written $m	Net premiums written $m
2021		
United States	**1,732.6**	**870.3**
United Kingdom	**186.6**	**132.1**
Canada	**129.5**	**92.0**
Europe (excluding UK)	**84.3**	**58.2**
Other (including worldwide)	**1,105.3**	**845.7**
	3,238.3	**1,998.3**
2020		
United States	1,335.2	962.2
United Kingdom	160.4	108.7
Canada	100.7	69.2
Europe (excluding UK)	54.9	35.6
Other (including worldwide)	773.2	599.9
	2,424.4	1,775.6

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

(e) Portfolio mix

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

	2021 Gross premiums written		2020 Gross premiums written	
	$m	**%**	$m	%
London – Direct	**1,663.9**	**51.3**	1,344.7	55.5
London – RI	**639.6**	**19.8**	533.4	22.0
Overseas distribution	**407.9**	**12.6**	327.6	13.5
Discontinued	**15.9**	**0.5**	127.8	5.3
Other	**115.4**	**3.6**	90.9	3.7
Ki	**395.6**	**12.2**	–	–
	3,238.3	**100.0**	2,424.4	100

	2021 Gross premiums written Gross	%	2020 Gross premiums written $m	%
London – Direct	**1,663.9**	**51.3**	1,344.7	55.5
FINPRO	412.0	12.7	260.1	10.7
Progs & Facilities	471.4	14.5	461.9	19.1
Property	363.0	11.2	287.7	11.9
Ambridge Transactional	85.2	2.6	27.8	1.1
Specialty	332.3	10.3	307.2	12.7
London – RI	**639.6**	**19.8**	533.4	22.0
Casualty Treaty	255.0	7.9	242.6	10.0
Property Treaty	384.6	11.9	290.8	12.0
Overseas distribution	**407.9**	**12.6**	327.6	13.5
Ambridge Casualty	237.9	7.4	193.7	8.0
Ambridge Re	97.7	3.0	69.1	2.9
Scion	72.3	2.2	64.8	2.7
Discontinued	**15.9**	**0.5**	127.8	5.3
London Discontinued	16.4	0.5	72.5	3.0
BGSU Discontinued	(0.5)	–	55.3	2.3
Other	**115.4**	**3.6**	90.9	3.7
Ki	**395.6**	**12.2**	–	–
	3,238.3	**100**	2,424.4	100

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

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

(i) London – Direct

(1) Financial & Professional (FinPro)

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

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

4 Risk management policies (continued)

(2) Facilities

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

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

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

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

(3) Property

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

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

(4) Ambridge Transactional

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

(5) Specialty

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

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

(ii) London Reinsurance

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

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

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

(iii) Overseas Distribution

Ambridge Casualty	Casualty treaty reinsurance. North American portfolio, covering a range of classes including general liability, umbrella, professional liability, personal accident, auto liability, environmental liability, medical malpractice and workers compensation. Target client focus is broad and includes but is not limited to captives, RRGs, regional, super-regional and nationwide carriers.
Ambridge Re	Property and casualty treaty reinsurance and retrocession business.
Scion	Underwrites commercial property, E&S co-tenancy risk, and E&S specialist casualty insurance, focusing on excess liability (including Transportation) and primary general liability.

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

Scion ceased to be a part of the Brit Group on 28 June 2021 following its sale to a third-party. However, the Group continues to underwrite business through Scion.

4 Risk management policies (continued)

(iv) Aggregate exposure management

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

The Group's catastrophe risk tolerance is reviewed and set by the Boards on an annual basis. The last review of catastrophe risk tolerances was in March 2021.

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

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

	Estimated Industry loss $m	Modelled Group loss at 1 October 2021 Gross $m	(Note 1) Net $m	Modelled Group loss at 1 October 2020 Gross $m	(Note 1) Net $m
Gulf of Mexico windstorm	111,000	**1,072**	**216**	1,001	148
Florida Miami windstorm	131,000	**1,190**	**170**	1,081	95
US North East windstorm	81,000	**1,103**	**142**	1,016	183
San Francisco earthquake	80,000	**1,581**	**415**	1,496	442
Japan earthquake	69,244	**326**	**190**	382	201
Japan windstorm	14,714	**58**	**35**	80	50
European windstorm	27,227	**98**	**63**	99	66

Note 1: At 31 December 2021 foreign exchange rates.

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be non-modelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

(v) Sensitivity to changes in net claims ratio

The Group profit/loss on ordinary activities before taxation is sensitive to an independent 1% change in the net claims ratio (excluding the effect of foreign exchange on non-monetary items) for each class of business as follows:

		Impact on profit of 1% change in claims ratio year ended 2021 $m	year ended 2021 %	year ended 2020 $m	year ended 2020 %
London – Direct	FinPro, Progs & Facilities, Property, Ambridge Transactional, Specialty	**11.1**	**63.1**	9.7	57.1
London – RI	Property and Casualty Treaty	**3.9**	**22.3**	3.4	19.7
Overseas Distribution	Ambridge Casualty, Ambridge Re, Scion	**0.6**	**3.4**	3.1	18.0
Discontinued	London Discontinued, BGSU Discontinued	**(0.7)**	**(4.2)**	0.2	1.3
Other	Other Underwriting and Corporate	**1.0**	**6.6**	0.7	3.8
Ki	Syndicate 1618	**1.7**	**8.8**	–	–
Total		**17.6**	**100**	17.1	100

Subject to taxation, the impact on shareholders' equity would be the same as that on profit following a change in the net claims ratio.

4.1.2 Reinsurance

The Group purchases reinsurance to manage its exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Group to mitigate exposure to insurance losses, reduce volatility of reported results and protect capital.

Proportional quota share reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregation of losses. Quota share reinsurance is also used to manage the Group's net exposure to classes of business where the Group's risk appetite is lower than the efficient operating scale of the class of business on a gross of reinsurance basis. These placements are reviewed on the basis of market conditions.

The Group also has in place a comprehensive programme of excess of loss reinsurances to protect itself from severe size or frequency of losses:

- Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
- Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Group's risk appetite during the business planning exercise.
- Aggregate catastrophe excess of loss covers are in place to protect against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps, catastrophe bonds and industry loss warranties where they are a cost-efficient means to ensure that the Group remains within its catastrophe risk appetite.
- In December 2020 Brit issued a catastrophe bond which provides $300m of reinsurance protection to Syndicate 2987. The bond has a four-year term and covers losses from US named windstorms and US earthquakes. The bond was issued in the UK via Sussex Capital.
- Given the fundamental importance of reinsurance protection to the Group's risk management, the Group has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Outwards Reinsurance Committee oversees the purchase of reinsurance.

The Group remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Group.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.
- Basis risk on reinsurance which responds to something other than Brit's Ultimate Net Loss.

These risks are managed through a combination of techniques and controls including risk aggregation management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

4 Risk management policies (continued)

4.1.3 Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2021 from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Group as the reserves for unpaid losses represent the largest component of the Group's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of Syndicate 2987 and 2988's reserving risk, and the Brit Reinsurance (Bermuda) Limited Management Committee performs a similar function for Brit Reinsurance (Bermuda) Limited. The Ki Reserving Committee is responsible for managing Syndicate 1618's reserving risk.

The Group has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims adjusters validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Group's claims policy. Case reserves are set for notified claims using the experience of specialist claims adjusters, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Group's experienced actuaries to establish the IBNR reserve. These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and risk aggregation management to ensure that they have a full understanding of the emerging claims experience across the Group. Further details on the actuarial methods used can be found in Note 22.

The Group's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to Reserving Committees and Brit Reinsurance (Bermuda) Limited Management Committee sign-off as part of the formal governance arrangements for the Group. The estimate agreed by the committees is used as a basis for the consolidated financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of the external statutory audit engagement, reserves are subject to external actuarial work.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Group but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Group's reserves are considered to be claims from the long-tailed direct and long-tailed reinsurance classes. The issues contributing to this heightened uncertainty are common to all entities which write such business. Further details on the reserve profile and claims development tables can be found in Note 22.

4.2 Investment risk management

4.2.1 Introduction

This section describes the Group's approach to managing its investment risk, from both a quantitative and a qualitative perspective. Investment risk includes market risk (which is covered in section 4.3), investment credit risk (which is covered in section 4.4) and liquidity risk (which is covered in section 4.5).

4.2.2 Investment governance framework

Investment risk is managed in line with the elements of the Risk Management Framework (RMF) – identification, measurement and management. The Board has overall responsibility for determining the investment strategy, including defining the risk tolerance. This is achieved through investment policies and guidelines, which reflect the risk appetite and the business strategy of the Group and individual entities within the Group.

The BSL Investment Committee and the Brit Reinsurance (Bermuda) Limited Management Committee have been mandated to review, advise and make recommendations to the respective Boards on investment strategy with a view to optimising investment performance. The investment strategy is executed through outsourced investment management agreements, which is in line with prevailing regulations, with Hamblin Watsa Investment Counsel Limited (HWIC) and a range of other third-party investment managers.

The Risk Oversight Committee ensures that the investment risk is managed within the framework and also reports to the Board. An Investment Operations Committee oversees the operational risk that is relevant to the investment management function.

Information is provided at least quarterly covering portfolio composition, performance, forecasting and the results of stress and scenario tests. Any operational issues and breaches to the risk appetite framework are reported to the Risk Oversight Committee and the Board.

4.2.3 Risk tolerance

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

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

4.2.4 Solvency matching

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

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

4.2.5 Investment management

The investment management strategy is delivered, at the entity level, through outsourced Investment Management Agreements (IMAs) with HWIC and a range of other third-party investment managers. The IMAs prescribe the investment parameters within which HWIC are permitted to make asset allocation decisions on behalf of the respective entities.

Each of the Group's investing entities is governed by separate investment policies; these detail the parameters, roles and responsibilities relating to the management of each entity's investment portfolio.

4.3 Market risk

4.3.1 Introduction

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

4 Risk management policies (continued)

4.3.2 Interest rate risk

Introduction

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

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

Duration	1 year or less $m	1 to 3 years $m	3 to 5 years $m	Over 5 years $m	Equities $m	Total $m
At 31 December 2021						
Cash and cash equivalents	**1,510.3**	**–**	**–**	**–**	**–**	**1,510.3**
Financial investments	**1,669.2**	**606.3**	**994.1**	**265.4**	**480.0**	**4,015.0**
	3,179.5	**606.3**	**994.1**	**265.4**	**480.0**	**5,525.3**
At 31 December 2020						
Cash and cash equivalents	775.7	–	–	–	–	775.7
Financial investments	2,228.8	553.0	564.1	334.0	376.6	4,056.5
	3,004.5	553.0	564.1	334.0	376.6	4,832.2

The duration of the investment portfolio is set within an allowable range relative to the targeted duration and monitored on a quarterly basis.

As the claims liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates. Therefore, there is a balance to be struck between targeting a longer duration to protect the solvency position against movements in interest rates, and targeting a shorter duration that will reduce the possible volatility around the income statement.

Sensitivity to changes in investment yields

The sensitivity of the profit to the changes in investment yields is set out in the table below. The analysis is based on the information at 31 December 2021.

Impact on profit before tax	2021 $m	2020 $m
Increase		
25 basis points	**(21.3)**	(17.7)
50 basis points	**(42.5)**	(35.3)
100 basis points	**(85.1)**	(70.6)
Decrease		
25 basis points	**21.3**	17.6
50 basis points	**42.5**	35.1
100 basis points	**85.1**	70.2

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4.3.3 Currency risk

Introduction

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Group.

The Group matches assets to liabilities for each of the main currencies. Group capital is held in proportion to the liabilities, to minimise the impact on solvency and distributable earnings from movements in exchange rates. The split of assets and liabilities for each of the Group's main currencies, converted to US dollars, is set out in the tables below:

	USD $m	GBP £ Conv. $m	CAD $ Conv. $m	EUR € Conv. $m	AUD $ Conv. $m	Total Conv. $m
At 31 December 2021						
Total assets	**7,607.6**	**1,287.0**	**855.7**	**392.4**	**76.2**	**10,218.9**
Total liabilities	**6,045.5**	**1,198.7**	**372.2**	**345.2**	**110.7**	**8,072.3**
Net assets/(liabilities) excluding the effect of currency derivatives	**1,562.1**	**88.3**	**483.5**	**47.2**	**(34.5)**	**2,146.6**
Adjustment for foreign exchange derivatives	**225.9**	**84.0**	**(382.7)**	**13.6**	**59.2**	**–**
Adjusted net assets	**1,788.0**	**172.3**	**100.8**	**60.8**	**24.7**	**2,146.6**
At 31 December 2020						
Total assets	6,294.9	1,079.8	769.8	323.3	79.9	8,547.7
Total liabilities	4,866.7	1,201.3	346.2	331.6	87.6	6,833.4
Net assets/(liabilities) excluding the effect of currency derivatives	1,428.2	(121.5)	423.6	(8.3)	(7.7)	1,714.3
Adjusted for foreign exchange derivatives	127.9	88.8	(314.9)	78.1	20.1	–
Adjusted net assets	1,556.1	(32.7)	108.7	69.8	12.4	1,714.3

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

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Group may also choose to utilise foreign currency derivatives to manage the risk of reported losses due to changes in foreign exchange rates. The details of all foreign currency derivative contracts entered into are given in Note 24.

As a result of the accounting treatment for non-monetary items, the Group may also experience volatility in its income statement due to fluctuations in exchange rates. The degree to which derivatives are used is dependent on the prevailing costs versus the perceived benefit to shareholder value from reducing the chance of a reported loss due to changes in foreign exchange rates.

In accordance with IFRS, non-monetary items are recorded at original transaction rates and are not revalued at the reporting date. These items include unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums. This means these amounts in the statement of financial position are carried at a different exchange rate to the remaining assets and liabilities, with the resulting exchange differences that are created being recognised in the income statement. The Group considers this to be a timing issue which can cause volatility in the income statement.

4 Risk management policies (continued)

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage movement in the relative strength of the US dollar against the value of Sterling, Canadian dollar, Australian dollar and Euro simultaneously, after taking into consideration the effect of hedged positions and items recorded as non-monetary assets and liabilities under IFRS. The analysis is based on the information at 31 December 2021.

Impact on profit before tax	2021 $m	2020 $m
US dollar weakens		
10% against other currencies	**50.3**	23.0
20% against other currencies	**100.6**	46.1
US dollar strengthens		
10% against other currencies	**(50.3)**	(23.0)
20% against other currencies	**(100.6)**	(46.1)

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4.3.4 Other price risk

Introduction

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

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

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

The prices of fixed and floating rate income securities are predominantly impacted by currency, interest rate and credit risks. Credit risk on investments is discussed in the following section of this Note.

Sensitivity to changes in other price risk

The sensitivity of the profit to the changes in the prices of equity is set out in the table below. The analysis is based on the information as at 31 December 2021.

Impact on profit before tax	2021 $m	2020 $m
Increase in fair value		
10%	**83.7**	64.1
20%	**167.4**	128.2
30%	**251.0**	192.3
Decrease in fair value		
10%	**(83.7)**	(64.1)
20%	**(167.4)**	(128.2)
30%	**(251.0)**	(192.3)

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4.4 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation in a timely manner. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Group;
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Group;
- Investments: through the issuer default of all or part of the value of a financial instrument or the market value of that instrument; and
- Cash and cash equivalents: through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Group.

4.4.1 Investment credit risk

Investment credit risk management process

The Group Board has overall responsibility for investment credit risk. The investment guidelines and investment policy set out clear limits and controls around the level of investment credit risk. The Group has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Group's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through aggregate investment risk limits. The Brit Syndicates Limited Investment Committee chaired by Simon Lee, a non-executive Director of Brit Syndicates Limited, is responsible for the immediate oversight of the Group's UK investments and the Brit Reinsurance (Bermuda) Limited Board is responsible for the immediate oversight of the Group's Bermuda investments. Ultimately, both are responsible to the Brit Limited Board.

Investment credit risk profile

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

	AAA $m	AA $m	A $m	P-1 $m	P-2 $m	BBB and below $m	Equities $m	Not rated $m	Total $m
At 31 December 2021									
Financial investments	**2,163.3**	**183.2**	**379.7**	**–**	**–**	**372.1**	**480.0**	**436.7**	**4,015.0**
Derivative contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15.1**	**15.1**
Cash and cash equivalents	**703.9**	**382.4**	**236.1**	**130.0**	**–**	**57.9**	**–**	**–**	**1,510.3**
	2,867.2	**565.6**	**615.8**	**130.0**	**–**	**430.0**	**480.0**	**451.8**	**5,540.4**
At 31 December 2020									
Financial investments	1,663.9	337.9	813.2	–	–	471.3	376.6	393.6	4,056.5
Derivative contracts	–	–	–	–	–	–	–	14.9	14.9
Cash and cash equivalents	174.6	103.6	385.5	19.7	38.4	53.9	–	–	775.7
	1,838.5	441.5	1,198.7	19.7	38.4	525.2	376.6	408.5	4,847.1

The table above gives an indication of the level of credit worthiness of assets that are most exposed to credit risk. The ratings are mainly sourced from Standard & Poor's and where these are not available an equivalent rating agency.

4 Risk management policies (continued)

4.4.2 Insurance credit risk

Insurance credit risk management process

The Credit Committee chaired by the Group Chief Financial Officer is responsible for the management of credit risk arising from insurance activities.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral and have been approved for use by the Credit Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current balance sheet exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the Risk Oversight Committee and the Board at least quarterly.

Insurance credit risk profile

The summary of the insurance credit risk exposures for the Group is set out in the tables below:

	AAA $m	AA $m	A $m	Collateral $m	Not rated $m	Total $m
At 31 December 2021						
Reinsurance assets	**8.9**	**895.3**	**781.7**	**189.4**	**19.1**	**1,894.4**
Insurance receivables	**–**	**–**	**–**	**–**	**1,347.4**	**1,347.4**
	8.9	**895.3**	**781.7**	**189.4**	**1,366.5**	**3,241.8**
At 31 December 2020						
Reinsurance assets	5.7	860.8	461.1	144.2	21.2	1,493.0
Insurance receivables	–	–	–	–	1,152.8	1,152.8
	5.7	860.8	461.1	144.2	1,174.0	2,645.8

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Group in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Group in a timely manner).

As at 31 December 2021, collateral of $189.4m (2020: $144.2m) had been drawn against reinsurance assets.

The following table shows movements in impairment provisions during the year:

	Impairment provision against reinsurance assets $m	Impairment provision against insurance receivables $m
2021		
Opening provision at 1 January	**0.5**	**1.1**
Strengthening for the year	**–**	**0.3**
Net foreign exchange differences	**(0.1)**	**(0.4)**
Closing provision at 31 December	**0.4**	**1.0**
2020		
Opening provision at 1 January	–	11.0
Strengthening/(release) for the year	0.5	(9.1)
Net foreign exchange differences	–	(0.8)
Closing provision at 31 December	0.5	1.1

The following table shows the amount of insurance receivables past due but not impaired at the end of the year:

	2021 $m	2020 $m
0-3 months past due*	**(324.9)**	36.6
4-6 months past due	**12.5**	6.5
7-9 months past due	**49.4**	(0.3)
10-12 months past due	**1.0**	0.6
More than 12 months past due	**5.1**	5.3
	(256.9)	48.7

*As at 31/12/2021, this includes $344.1m (2020: nil) of payable balances in respect of loss portfolio reinsurance.

4.5 Liquidity risk

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

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

The Group also limits the amount of investment in illiquid securities in line with the liquidity policy set by the Boards. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled Realistic Disaster Scenarios. Contingent liquidity also exists in the form of a Group revolving credit facility.

4 Risk management policies (continued)

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of the Group into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates. Borrowings are stated at their nominal value at maturity.

31 December 2021	Statement of financial position $m	Fair values <1 year $m	1 to 3 years $m	3 to 5 years $m	>5 years $m	Equities $m	Total $m
Assets							
Reinsurance assets	2,291.2	939.0	624.1	339.4	388.7	–	2,291.2
Financial investments	4,015.0	1,669.2	606.3	994.1	265.4	480.0	4,015.0
Derivative contracts	15.1	13.9	–	1.2	–	–	15.1
Insurance receivables	1,347.4	1,347.4	–	–	–	–	1,347.4
Cash and cash equivalents	1,510.3	1,510.3	–	–	–	–	1,510.3
	9,179.0	5,479.8	1,230.4	1,334.7	654.1	480.0	9,179.0

31 December 2021	Statement of financial position $m	Undiscounted values <1 year $m	1 to 3 years $m	3 to 5 years $m	>5 years $m	Equities $m	Total $m
Liabilities							
Insurance contract liabilities	6,532.9	2,808.6	1,685.3	841.4	1,197.6	–	6,532.9
Derivative contracts	12.5	12.5	–	–	–	–	12.5
Borrowings	227.9	–	–	45.0	182.9	–	227.9
Other financial liabilities	95.8	–	–	–	–	95.8	95.8
Insurance and other payables	1,184.1	1,139.1	16.2	13.6	21.4	–	1,190.3
	8,053.2	3,960.2	1,701.5	900.0	1,401.9	95.8	8,059.4

31 December 2020	Statement of financial position $m	Fair values <1 year $m	1 to 3 years $m	3 to 5 years $m	>5 years $m	Equities $m	Total $m
Assets							
Reinsurance assets	1,764.1	718.2	494.2	255.3	296.4	–	1,764.1
Financial investments	4,056.6	2,228.9	553.0	564.1	334.0	376.6	4,056.6
Derivative contracts	14.9	14.3	–	0.4	0.2	–	14.9
Insurance receivables	1,152.8	1,152.8	–	–	–	–	1,152.8
Cash and cash equivalents	775.7	775.7	–	–	–	–	775.7
	7,764.1	4,889.9	1,047.2	819.8	630.6	376.6	7,764.1

31 December 2020	Statement of financial position $m	Undiscounted values <1 year $m	1 to 3 years $m	3 to 5 years $m	>5 years $m	Equities $m	Total $m
Liabilities							
Insurance contract liabilities	5,813.0	2,342.6	1,497.9	816.9	1,155.6	–	5,813.0
Derivative contracts	9.2	9.2	–	–	–	–	9.2
Borrowings	314.5	130.0	–	–	184.5	–	314.5
Other financial liabilities	62.0	–	–	–	–	62.0	62.0
Insurance and other payables	620.7	573.6	14.0	13.1	27.6	–	628.3
	6,819.4	3,055.4	1,511.9	830.0	1,367.7	62.0	6,827.0

4.6 Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of Brit. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The BSL Operations Committee, chaired by the Group Chief Operating Officer, is a key governance committee reporting to the Executive Committee. The BSL Operations Committee is responsible for managing operational risk in line with the operational risk policy and the risk tolerance and management appetite limits set by the BSL Board and management respectively. Each individual risk committee is provided with relevant operational risk updates and these committees include operational risk owners within executive management who actively manage operational risk within their respective areas (such as Underwriting, Claims, Investments and Finance).

An operational risk management framework is in place to ensure an appropriate standard approach is taken to managing operational risk across the Group. The key elements of this framework are:

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

A conduct risk framework is in place across the Group to ensure Brit's products and services continue to meet the needs of our customers.

4.7 COVID-19 risk management

COVID-19 originated in Hubei Province in China and has since spread across the globe. Governments have taken various actions to contain the pandemic, including social distancing measures, travel restrictions and lockdowns, resulting in the closure of certain businesses. Whilst 2021 has seen the relaxation of some measures, there continues to be heightened uncertainty compared to prior to the pandemic. Whilst pandemic exclusions offer some protection against new insurance claims from various lines of business, there is still a potential impact from policies written prior to the pandemic. COVID-19 has also caused significant volatility in the financial markets. Interest rates remain at depressed levels and inflation has increased.

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

- **Operational risk**

COVID-19 caused a temporary shift from an office-based working environment to a remote working environment for all staff. Brit continues to monitor the situation and adapt its approach to reflect current circumstances. Brit and its outsourced service providers have adapted well to the changing situation and operational performance has generally been strong.

4 Risk management policies (continued)

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

- **Insurance risk**

The Group has a rigorous process for establishing reserves for insurance claim liabilities, including those associated with COVID-19. However, uncertainties remain around loss estimates given that the pandemic is ongoing. We also continue to monitor the potential for claims arising indirectly from the pandemic. For example, due to the global recession in 2020 which may lead to an increased risk of moral hazard, fraud, and a more litigious environment generally. Rising price inflation in the US and UK may also lead to an increase in the cost of settling claims.

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

- **Investment and Market risk**

COVID-19 caused significant volatility in financial markets. Whilst equity markets have largely recovered to pre-pandemic levels, interest rates remain depressed, and inflation has increased. The investment portfolio continues to be actively managed to reflect market developments.

- **Credit risk**

COVID-19 has caused economic disruption around the world with many businesses and individuals forced to cease business activity in light of government lockdowns. As at 31 December 2021, the Group has not seen a material increase in defaults but continues to monitor this closely.

- **Solvency and Liquidity risk**

As at 31 December 2021, the Group held a surplus of $617.9m (2020: $341.0m) over its management capital requirements. All regulatory capital requirements have been complied with by the Group's individual insurance subsidiaries throughout 2021. Our regulatory capital requirements calculation as at 31 December 2021 included an allowance for the uncertainties associated with COVID-19 as described above. Brit continues to benefit from the support of the wider Fairfax group.

The Group has conducted stress testing of its underwriting subsidiaries' liquidity resources, in order to assess their ability to continue making claims payments as they fall due. This stress testing demonstrated their continued ability to access sufficient liquidity, even in severe stress scenarios. At 31 December 2021, the Group held $3,803.7m (2020: $2,623.5m) of cash and short-dated government debt securities, and $275.0m (2020: $190.0m) undrawn on its RCF.

As part of the terms of the RCF, Brit is obliged to ensure that borrowings under the facility will not exceed 40% of consolidated net tangible assets (defined as the aggregate of the share capital of the Company, the amount standing to the credit of the consolidated reserves of the Group and any financial indebtedness of the Group which is fully subordinated to the facility). At 31 December 2021 Brit was well within this threshold, with RCF drawings equating to 10.4% of consolidated net tangible assets (2020: 16.0%).

4.8 Emerging risks

Brit undertakes a formal emerging risk review annually with the results reported to the Risk Oversight Committee and included in the Own Risk & Solvency Assessment (ORSA) report. The review is an important part of the risk identification aspect of the RMF and includes horizon scanning of the internal and external risk environment to identify potential new or developing risks to Brit. These risks can then be included in the risk register and managed appropriately as required.

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

4.8.1 Climate Change

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

The financial risks to insurers may include the potential for increased frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. In line with previous years, 2021 continued to see wildfires occurring worldwide and the Atlantic hurricane season was the third most active season on record after 2020 and 2015.

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

- **Natural catastrophe risks** relating to climate change are the physical risks of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims and could impact Brit in the short to medium-term. We continuously monitor scientific studies, regularly review the completeness of existing models and the application of the Brit view of risk. Brit's exposure to natural catastrophe risks is monitored on an ongoing basis by the Risk Management Function.
- Climate change could result in additional **liability claims** arising from increasing climate litigation against Brit's clients. The claims arise from firms contributing to climate change, failing to transition to renewables, greenwashing or directors' breach of fiduciary duties. The nature of these claims could impact Brit in the medium to long-term. Brit's exposure is limited through limits on gross underwriting exposure and through the purchase of reinsurance.
- **Investment losses** have the potential to arise from exposure to industries perceived to be contributing to climate change. This transition risk could adversely impact Brit very quickly as financial markets valuations fluctuate. Brit has a diversified investment portfolio, with limits on exposure to individual issuers. Brit is developing metrics to strengthen its understanding of the potential impacts of climate change on its investments.

Brit is managing the risks associated with climate change in line with the RMF which is reviewed annually, and regulatory guidance developments are monitored through the committees and working parties. This will continue to be an area of management, Risk Committee and Board focus, with a multi-disciplinary Climate Change Risk Working Party to consider the financial risks associated with climate change.

Climate change scenario analysis has been conducted as part of the ORSA process, and Brit participated in the PRA's Climate Biennial Exploratory Scenario (CBES) testing exercise in 2021. Brit's Solvency II internal models include an allowance for the impact of climate change. The analysis utilises catastrophe modelling, expert judgement, scenario analysis and selected metrics as tools to monitor and manage exposure to climate-related risks. The outputs from these feed into business decision making. Brit is compliant with PRA Supervisory Statement SS3/19 which sets expectations for firms regarding their consideration of climate risk.

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. An annual review of equity holdings is conducted which includes a review of the ESG strategy of underlying companies within Brit's equity portfolio. Holdings of industries such as oil and gas, transport and utilities deemed to materially contribute to climate change are also monitored. These are further discussed on page 48.

4.9 Capital management

Brit defines management entity capital as the amount of capital that the Board of each underwriting entity determines that it should hold, taking into account the requirements of shareholders, regulators, policyholders, and the Boards' solvency risk appetite. The capital policy is set by the entity and Group Boards. Management entity capital requirements are in excess of capital requirements under the Solvency II capital regime, which became effective on 1 January 2016.

The capital requirements are based on the output of the internal model which reflects the risk profile of the business.

The capital policy requires capital to be held well in excess of regulatory minimum requirements, underpinning Brit's financial strength. The policy ensures the capital adequacy of the Group as a whole, and each entity, through an efficient capital structure. Brit proactively responds to developments in the financial environment to ensure its capital strength is maintained while optimising risk adjusted returns.

4 Risk management policies (continued)

The Group's total capital consists of net tangible assets (after the exclusion of the deferred tax liability on intangible assets and non-controlling interest), subordinated debt, letters of credit, and contingent funding. This amounted to $2,199.5m as at 31 December 2021 (2020: $1,881.3m). This represented a surplus of $617.9m (2020: $341.0m) over the management capital requirements (unaudited).

All regulatory capital requirements have been complied with during the year by the Group's individual insurance subsidiaries.

The Lloyd's market is subject to the solvency and capital adequacy requirements of the Prudential Regulation Authority (PRA). Any regulatory intervention by the PRA in respect of Lloyd's may adversely affect the Group. The PRA may impose more stringent requirements on Lloyd's which may result in higher capital requirements or a restriction on trading activities for entities within the Group. If Lloyd's fails to satisfy its solvency test in any year, the PRA may require Lloyd's to cease trading and/or its members to cease or reduce their underwriting exposure, which may result in a material adverse effect to the Group's reputation, financial condition and results of operations.

During 2021, Brit primarily underwrote through the Group's wholly aligned Lloyd's Syndicate 2987 which benefits from the Lloyd's credit ratings of A (Excellent) from A.M. Best, AA – (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's. Any downgrade in Lloyd's financial strength ratings may have an adverse effect on the Group.

The Group's business plan and underwriting capacity for the Syndicate may be affected by a decrease in the value of the Group's Funds at Lloyd's or by recommendations from the Lloyd's Franchise Board. The Group is also reliant upon the compliance of Lloyd's with US regulations, including the maintenance by Lloyd's of its trading licences and approvals in the US.

4.10 Sussex: Governance Structure

Sussex Capital is Brit's collateralised reinsurance platform based in Bermuda which was launched on 1 January 2018. Sussex Capital Limited has two segregated accounts operating as funds available for capital investment, referred to as The Diversified Fund and Specialty Insurance Fund (the Funds). Through Sussex Re, it writes direct collateralised property catastrophe reinsurance and also provides collateralised reinsurance to Brit's Property Treaty portfolio.

Sussex Capital has an independent governance structure to manage its operations. This consists of a Board and three sub-committees. The Board has overall responsibility for oversight of the business. The Valuation Committee is responsible for fund valuation, settling claims and setting reserves, the Investment Committee ensures investments are made in line with the Funds objectives, and the Management Committee oversees the day-to-day operations of the Funds.

The risks to Brit from Sussex Capital arise from two main sources: first, a direct investment risk due to the Group's investment in the Funds; secondly, operational, reputational, and strategic risks relating to managing the Funds on behalf of external investors. The direct investment risk is managed in the same way as the Group's other investment risks, through oversight by the relevant committees. The operational, reputational, and strategic risks are managed through the governance structure in place at Sussex as described above. In particular, the Sussex Board has independent non-executive Directors with significant industry experience. The Brit Group provides support (for example, catastrophe modelling) to assist Sussex's operations and risk management.

4.11 Ki: Governance and Risk Management Framework

Ki is the first fully digital and algorithmically driven Lloyd's syndicate offering instant capacity, accessible anywhere, at any time. It started writing business from 1 January 2021, writing a mix of lines that are either already underwritten by Brit Syndicates 2987 and 2988, or other approved nominated leads.

Ki is managed by BSL, with its capital backing coming from a mix of Fairfax and Blackstone. In line with Brit's Risk Management Framework, risks to Ki and Syndicate 1618 are managed in the same way as Brit's other syndicates, other than where specifically noted above.

5 Segmental information

This Note breaks down the operating results summarised in the income statement into the main business areas of the Group. It also shows how our revenue is split globally. This analysis is designed to help you understand how each segment of our business has performed and how we have allocated our shareholders' capital.

For the year ended 31 December 2021, we have re-presented our reporting segments. 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 the Transactional business generated by Ambridge.
- '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 business generated by BGSB (Bermuda).
- 'Overseas Distribution' represents the Specialty Casualty and Reinsurance business generated by Ambridge (US), formerly generated by BGSU, and business generated by Scion.
- '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 Holdings Limited sub-group, which underwrites business through Syndicate 1618. Ki commenced underwriting in 2021.

The segments for the year ended 31 December 2020 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 year ended 31 December 2020 are re-presented on this basis.

The 2021 ratio calculations contain an adjustment whereby the premium paid for the loss portfolio reinsurance (LPR) is added back to premium earned net of reinsurance, with an equal and opposite adjustment to net claims incurred:

$m	London Direct	London Reinsurance	Overseas Distribution	Discontinued Underwriting	Other Underwriting	**Total Brit Underwriting (excluding Ki)**	Ki	**Total**
Earned premiums, net of reinsurance	1,111.2	392.4	60.0	(73.4)	98.5	**1,588.7**	165.6	**1,754.3**
LPR adjustment	–	–	221.5	123.7	(1.1)	**344.1**	–	**344.1**
Adjusted earned premiums, net of reinsurance	1,111.2	392.4	281.5	50.3	97.4	**1,932.8**	165.6	**2,098.4**
Claims incurred, net of reinsurance	(579.6)	(272.9)	62.8	103.9	(80.6)	**(766.4)**	(115.2)	**(881.6)**
LPR adjustment	–	–	(221.5)	(123.7)	1.1	**(344.1)**	–	**(344.1)**
Adjusted claims incurred, net of reinsurance	(579.6)	(272.9)	(158.7)	(19.8)	(79.5)	**(1,110.5)**	(115.2)	**(1,225.7)**

The benefit of a $35.0m reserve release resulting from the additional protection afforded by the contract is included in the calculation. The Directors believe that the ratios when calculated after these adjustments present a more consistent and understandable view of the Group's performance.

5 Segmental information (continued)

Information regarding the Group's reportable segments is presented below.

(a) Income statement by segment

Year ended 31 December 2021

$m	London Direct	London Reinsurance	Overseas Distribution	Discontinued Underwriting	Other Underwriting	Total Brit Underwriting (excluding Ki)	Investments	Corporate	Total Brit (excluding Ki)	Ki	Total Group
Gross premiums written	1,663.9	639.6	407.9	15.9	115.4	**2,842.7**	–	–	**2,842.7**	395.6	**3,238.3**
Less premiums ceded to reinsurers	(456.6)	(273.0)	(336.6)	(134.6)	10.8	**(1,190.0)**	–	–	**(1,190.0)**	(50.0)	**(1,240.0)**
Premiums written, net of reinsurance	1,207.3	366.6	71.3	(118.7)	126.2	**1,652.7**	–	–	**1,652.7**	345.6	**1,998.3**
Gross earned premiums	1,498.9	613.5	385.4	72.8	98.1	**2,668.7**	–	–	**2,668.7**	199.2	**2,867.9**
Reinsurers' share	(387.7)	(221.1)	(325.4)	(146.2)	0.4	**(1,080.0)**	–	–	**(1,080.0)**	(33.6)	**(1,113.6)**
Earned premiums, net of reinsurance	1,111.2	392.4	60.0	(73.4)	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	33.1	12.7	8.1	0.3	2.4	**56.6**	–	21.7	**78.3**	–	**78.3**
Gains on other financial liabilities	–	–	–	–	2.5	**2.5**	–	–	**2.5**	–	**2.5**
Total revenue	**1,144.3**	**405.1**	**68.1**	**(73.1)**	**103.4**	**1,647.8**	**168.8**	**28.9**	**1,845.5**	**167.0**	**2,012.5**
Gross claims incurred	(811.2)	(406.6)	(268.5)	(43.1)	(70.1)	**(1,599.5)**	–	–	**(1,599.5)**	(124.7)	**(1,724.2)**
Reinsurers' share	231.6	133.7	331.3	147.0	(10.5)	**833.1**	–	–	**833.1**	9.5	**842.6**
Claims incurred, net of reinsurance	(579.6)	(272.9)	62.8	103.9	(80.6)	**(766.4)**	–	–	**(766.4)**	(115.2)	**(881.6)**
Acquisition costs – commission	(329.3)	(81.6)	(54.0)	(16.8)	(3.9)	**(485.6)**	–	–	**(485.6)**	(42.8)	**(528.4)**
Acquisition costs – other	(73.1)	(21.6)	(33.3)	(5.3)	(17.5)	**(150.8)**	–	–	**(150.8)**	(29.1)	**(179.9)**
Other insurance related expenses	(80.0)	(33.2)	(17.9)	(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	**(1,062.0)**	**(409.3)**	**(42.4)**	**81.0**	**(102.0)**	**(1,534.7)**	**–**	**(45.5)**	**(1,580.2)**	**(188.4)**	**(1,768.6)**
Operating profit	**82.3**	**(4.2)**	**25.7**	**7.9**	**1.4**	**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	52.2%	69.5%	56.4%	39.4%	81.6%	57.5%			57.4%	69.6%	58.4%
Expense ratio	40.4%	31.6%	34.5%	44.9%	17.0%	36.6%			36.7%	44.0%	37.3%
Combined ratio	**92.6%**	**101.1%**	**90.9%**	**84.3%**	**98.6%**	**94.1%**			**94.1%**	**113.6%**	**95.7%**

Year ended 31 December 2020 (re-presented)

$m	London Direct	London Reinsurance	Overseas Distribution	Discontinued Underwriting	Other Underwriting	Total Underwriting	Investments	Corporate	Total Group
Gross premiums written	1,344.7	533.4	327.6	127.8	90.9	**2,424.4**	–	–	**2,424.4**
Less premiums ceded to reinsurers	(337.9)	(169.5)	(90.1)	(38.3)	(13.0)	**(648.8)**	–	–	**(648.8)**
Premiums written, net of reinsurance	1,006.8	363.9	237.5	89.5	77.9	**1,775.6**	–	–	**1,775.6**
Gross earned premiums	1,307.2	522.7	318.8	175.8	47.7	**2,372.2**	–	–	**2,372.2**
Reinsurers' share	(379.7)	(162.0)	(79.0)	(55.7)	14.9	**(661.5)**	–	–	**(661.5)**
Earned premiums, net of reinsurance	927.5	360.7	239.8	120.1	62.6	**1,710.7**	–	–	**1,710.7**
Investment return	–	–	–	–	–	**–**	56.5	–	**56.5**
Return on derivative contracts	–	–	–	–	–	**–**	(13.9)	12.8	**(1.1)**
Other income	6.9	1.3	1.8	–	19.7	**29.7**	–	(15.6)	**14.1**
Losses on other financial liabilities	–	–	–	–	(6.0)	**(6.0)**	–	–	**(6.0)**
Total revenue	**934.4**	**362.0**	**241.6**	**120.1**	**76.3**	**1,734.4**	**42.6**	**(2.8)**	**1,774.2**
Gross claims incurred	(995.0)	(299.3)	(250.7)	(162.7)	(36.7)	**(1,744.4)**	–	–	**(1,744.4)**
Reinsurers' share	346.3	35.7	59.6	52.3	11.4	**505.3**	–	–	**505.3**
Claims incurred, net of reinsurance	(648.7)	(263.6)	(191.1)	(110.4)	(25.3)	**(1,239.1)**	–	–	**(1,239.1)**
Acquisition costs – commission	(290.4)	(69.8)	(37.9)	(47.4)	(7.8)	**(453.3)**	–	–	**(453.3)**
Acquisition costs – other	(54.9)	(17.5)	(28.2)	(15.4)	(29.4)	**(145.4)**	–	–	**(145.4)**
Other insurance related expenses	(66.6)	(28.6)	(15.3)	(5.2)	1.8	**(113.9)**	–	–	**(113.9)**
Other expenses	–	–	–	–	–	**–**	–	(23.6)	**(23.6)**
Net foreign exchange losses	–	–	–	–	–	**–**	–	(7.8)	**(7.8)**
Total expenses excluding finance costs	**(1,060.6)**	**(379.5)**	**(272.5)**	**(178.4)**	**(60.7)**	**(1,951.7)**	**–**	**(31.4)**	**(1,983.1)**
Operating loss	**(126.2)**	**(17.5)**	**(30.9)**	**(58.3)**	**15.6**	**(217.3)**	**42.6**	**(34.2)**	**(208.9)**
Finance costs						**–**	–	(23.6)	**(23.6)**
Share of net profit of associates						**–**	2.0	–	**2.0**
Loss on ordinary activities before tax						**(217.3)**	**44.6**	**(57.8)**	**(230.5)**
Tax charge									**(1.5)**
Loss for the year									**(232.0)**
Claims ratio	69.9%	73.1%	79.7%	91.9%	40.4%	**72.4%**			**72.4%**
Expense ratio	43.7%	31.8%	33.2%	56.6%	34.7%	**40.3%**			**40.3%**
Combined ratio	113.6%	104.9%	112.9%	148.5%	75.1%	**112.7%**			**112.7%**

5 Segmental information (continued)

(b) Depreciation, amortisation and capital expenditure by segment

	London Direct $m	London Reinsurance $m	Overseas Distribution $m	Discontinued $m	Other Underwriting $m	Ki $m	Total $m
Year ended 31 December 2021							
Depreciation and impairment of property, plant and equipment	**4.3**	**1.6**	**1.7**	**–**	**1.9**	**0.6**	**10.1**
Amortisation of intangibles	**4.9**	**1.7**	**0.8**	**–**	**3.3**	**1.0**	**11.7**
Capital expenditure	**9.5**	**3.3**	**1.0**	**–**	**5.7**	**1.9**	**21.4**
Year ended 31 December 2020							
Depreciation and impairment of property, plant and equipment	3.6	1.3	2.8	0.4	0.8	–	8.9
Amortisation of intangibles	4.0	1.5	1.5	0.5	3.2	–	10.7
Capital expenditure	3.0	1.2	1.9	0.4	–	1.2	7.7

Capital expenditure consists of additions of property, plant and equipment and intangible assets but excludes assets recognised on business combinations.

(c) Geographical information

The Group's strategic business units operate mainly in five geographical areas, though the business is managed on a worldwide basis. The segmental split shown below is based on the location of the underlying risk.

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Gross premiums written		
United States	**1,732.6**	1,335.2
United Kingdom	**186.6**	160.4
Canada	**129.5**	100.7
Europe (excluding UK)	**84.3**	54.9
Other (including worldwide)	**1,105.3**	773.2
	3,238.3	2,424.4

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

6 Investment return

This Note shows the income generated through investing funds. It also shows the gains and losses generated on various types of investment assets as a result of the movement in their market values.

	Investment income $m	Net realised gains/(losses) $m	Net unrealised gains/(losses) $m	Total investment return $m
Year ended 31 December 2021				
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**

	Investment income $m	Net realised gains/(losses) $m	Net unrealised gains/(losses) $m	Total investment return $m
Year ended 31 December 2020				
Equity securities	6.3	(7.1)	(41.7)	(42.5)
Debt securities	63.8	13.0	64.5	141.3
Mortgages and loans	0.2	–	–	0.2
Specialised investment funds	–	1.6	(34.4)	(32.8)
Cash and cash equivalents	2.9	–	–	2.9
Total investment return before expenses	73.2	7.5	(11.6)	69.1
Investment management expenses	(12.6)	–	–	(12.6)
Total investment return	60.6	7.5	(11.6)	56.5

7 Return on derivative contracts

This Note shows the effect on the income statement of derivative contracts held during the year, and which help manage exposure to fluctuations in interest rates and foreign exchange rates. Derivatives are shown analysed between investment and currency related derivatives, reflecting the way the business is managed.

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Investment-related non-currency options	**3.0**	(13.9)
Currency forwards	**(18.7)**	12.8
Return on derivative contracts	**(15.7)**	(1.1)

8 Deconsolidation of subsidiaries

This Note provides information in respect of disposal of subsidiary undertakings during the reporting period.

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 the 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 the 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 the date of disposal are included in the current year Group result.

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

This Note shows the analysis of other income generated in the year, including gains/(losses) on other financial liabilities.

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Fees and commission from non-aligned syndicate	**7.5**	6.9
Change in value of ultimate parent company shares held by Brit	**21.7**	(15.6)
Net commission fee income from intermediary activities	**42.3**	18.5
Consortium income	**4.6**	2.9
Other	**2.2**	1.4
Other income	**78.3**	14.1
Change in value of other financial liabilities*	**2.5**	(6.0)
Total	**80.8**	8.1

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

10 Net foreign exchange losses

The Group operates in multiple countries and currencies and is exposed to gains and losses arising as a result of movement in various foreign currency exchange rates. This Note explains the foreign exchange gains or losses as a result of converting the income, expenses, assets and liabilities from foreign currencies to US dollars.

The Group recognised foreign exchange losses of $1.1m (2020: losses of $7.8m) in the income statement in the year. Foreign exchange gains and losses result from the translation of the statement of financial position items using closing exchange rates, and translation of income statement items using the exchange rates prevailing at the dates of the relevant transactions, or at the average rate for the period when this is a reasonable approximation. However, as an exception to this, IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires that net unearned premiums and deferred acquisition costs (UPR/DAC), being non-monetary items, remain at historic exchange rates. This creates a foreign exchange mismatch, the financial effects of which are shown in the table below.

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Gains/(losses) on foreign exchange arising from:		
Translation of the statement of financial position and income statement	**2.5**	(12.4)
Maintaining UPR/DAC items in the income statement at historic rates	**(3.6)**	4.6
Net foreign exchange losses	**(1.1)**	(7.8)

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

	Year ended 31 December 2021 Average	Year ended 31 December 2021 Closing	Year ended 31 December 2020 Average	Year ended 31 December 2020 Closing
Sterling	**0.727**	**0.738**	0.779	0.732
Canadian dollar	**1.253**	**1.263**	1.340	1.274
Euro	**0.845**	**0.879**	0.876	0.817
Australian dollar	**1.331**	**1.375**	1.447	1.296
South African rand	**14.765**	**15.960**	16.378	14.689

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

11 Acquisition costs and other operating expenses

This Note shows the analysis of costs incurred in acquiring and underwriting insurance contracts and the running costs of our business during the year. We have separated out the more material costs in order to provide a more detailed insight into our cost base.

	Year ended 31 December 2021			Year ended 31 December 2020		
	Acquisition costs $m	Other operating expenses $m	Total $m	Acquisition costs $m	Other operating expenses $m	Total $m
Salary, pension and social security costs (Note 12)	**90.9**	**87.8**	**178.7**	63.1	60.0	123.1
Other staff related costs	**4.6**	**23.6**	**28.2**	3.3	9.9	13.2
Accommodation costs	**4.2**	**2.7**	**6.9**	6.2	3.2	9.4
Legal and professional charges	**9.8**	**12.3**	**22.1**	11.5	13.9	25.4
IT costs	**2.6**	**26.1**	**28.7**	2.5	24.8	27.3
Travel and entertaining	**0.9**	**0.6**	**1.5**	1.1	0.7	1.8
Marketing and communications	**0.2**	**1.5**	**1.7**	0.2	1.5	1.7
Amortisation and impairment of intangible assets	**0.5**	**11.2**	**11.7**	0.5	10.2	10.7
Depreciation, impairment and losses on disposal of property, plant and equipment	**3.9**	**6.7**	**10.6**	2.8	6.1	8.9
Regulatory levies and charges	**58.2**	**–**	**58.2**	47.6	0.4	48.0
Other	**4.1**	**5.1**	**9.2**	6.6	6.8	13.4
Expenses before commissions	**179.9**	**177.6**	**357.5**	145.4	137.5	282.9
Commission costs	**528.4**	**–**	**528.4**	453.3	–	453.3
Total acquisition costs and other operating expenses	**708.3**	**177.6**	**885.9**	598.7	137.5	736.2

notes to the consolidated financial statements

12 Staff costs

This Note gives a breakdown of the total cost of employing staff (including executive and non-executive Directors) and gives the average number of people employed by the Group during the year.

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Wages and salaries	**154.0**	105.6
Social security costs	**17.1**	11.4
Pension costs	**7.6**	6.1
Total staff costs	**178.7**	123.1

The average number of employees during the year, including executive and non-executive Directors, was as follows:

	Year ended 31 December 2021 Number	Year ended 31 December 2020 Number
Front office staff		
Underwriters	**212**	213
Claims staff	**75**	65
Other underwriting and direct support staff	**185**	163
Total front office staff	**472**	441
Back office staff		
Management	**137**	118
Administration	**210**	195
Total back office staff	**347**	313
Total employees	**819**	754

'Management' includes non-executive Directors and employees who have other members of staff reporting to them.

Director emoluments are included on page 178.

13 Finance costs

Finance costs arise from interest due on moneys borrowed by the Group and any other amounts payable in respect of those borrowings or borrowing facilities. Finance costs also includes interest payable on lease liabilities. The Group's borrowings consist of a revolving credit facility and listed unsecured subordinated debt, details of which are set out in Note 30.

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Revolving credit facility and other bank borrowings	**9.8**	7.9
Interest payable on lease liabilities	**1.7**	1.6
Subordinated debt	**6.8**	14.1
Total finance costs	**18.3**	23.6

14 Auditors' remuneration

The Group engages PricewaterhouseCoopers LLP to perform the audit of the Group and all subsidiaries except for the Ambridge and Camargue companies.

The remuneration of the auditors or their associates is analysed as follows:

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Audit of the Group and Company financial statements*	1.0	0.5
Audit of subsidiaries	1.3	1.3
Audit related assurance services	0.5	0.1
Total audit and audit related assurance services	2.8	1.9
Total non-audit services	0.3	–
Total audit and non-audit services	3.1	1.9

* In 2021, $0.4m (2020: nil) has been included within this figure in respect of early IFRS 17 related audit work.

15 Investments in associated undertakings

This Note describes the investments made in associated undertakings and provides summarised income statements and statements of financial position of those associates.

Sutton Special Risk Inc. ('Sutton')

On 2 January 2019 Brit Insurance Holdings Limited, acquired 49% of the issued shares of Sutton for a total purchase consideration of CAD$17.2m, and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian managing general underwriter of a range of specialised insurance products, including Accident and Health. The summarised statement of financial position of Sutton and reconciliation to the carrying amount is as follows:

Statement of financial position	31 December 2021 $m	31 December 2020 $m
Current assets	26.0	16.2
Non-current assets	3.5	3.8
Total assets	29.5	20.0
Current liabilities	(23.4)	(15.4)
Total liabilities	(23.4)	(15.4)
Net assets	6.1	4.6
51% not owned by Brit	(3.1)	(2.3)
Acquisition fair value, result since acquisition and other adjustments	12.0	11.9
Carrying value	15.0	14.2

Income statement	31 December 2021 $m	31 December 2020 $m
Commission revenue	8.6	7.8
Operating expenses	(6.2)	(5.8)
Net profit	2.4	2.0
51% not owned by Brit	(1.2)	(1.0)
Share of net profit of associate	1.2	1.0

notes to the consolidated financial statements

16 Non-controlling interests

This Note provides summarised financial information for each subsidiary that has non-controlling interests ('NCI') that are material to the Group. The amounts disclosed are before inter-company eliminations.

During 2020, Ki Financial Limited was incorporated and received initial funding from investors, including Brit Limited, to support the initial underwriting activities of Ki Syndicate 1618. On 1 January 2021 Ki Syndicate 1618 commenced underwriting. During 2021 additional funding from investors, including Brit Limited, was received to support the continued underwriting. The Group's shareholding remained consistent throughout the year, as at 31 December 2021, the Group continues to hold 20% of the share capital but a majority of the voting rights in the Company.

From 1 January 2021 RiverStone Corporate Capital 4 Limited ('RCC4') provided capital to Syndicate 1618. RCC4 was legally owned by RiverStone Holdings Limited ('RHL') throughout the reporting period. However, the Group is exposed to the majority of RCC4's business as a result of the Ki structure and, as a result, the Group is considered to control RCC4. A non-controlling interest has been recorded in respect of RHL's entitlement to residual retained profits arising from activities unrelated to Ki. The accumulated NCI attributable to RHL is $0.7m, the profit allocated to RHL NCI is $0.5m.

No dividends were paid to non-controlling interests in 2021 (2020: nil).

The summarised financial information of Ki Financial Limited, before inter-company eliminations, is as follows:

Statement of financial position	**31 December 2021 $m**	31 December 2020 $m
Current assets	**42.3**	25.6
Non-current assets	**263.5**	130.6
Total assets	**305.8**	156.2
Current liabilities	**(0.6)**	(6.0)
Total liabilities	**(0.6)**	(6.0)
Net assets	**305.2**	150.2
Accumulated NCI*	**233.5**	121.7

Comprehensive income statement	**31 December 2021 $m**	31 December 2020 $m
Loss for the period	**(25.1)**	(5.2)
Other comprehensive income	**–**	–
Total comprehensive income	**(25.1)**	(5.2)
Loss allocated to NCI*	**(12.1)**	(2.7)

Statement of cash flows	**31 December 2021 $m**	31 December 2020 $m
Cash flows from operating activities	**(10.6)**	(2.0)
Cash flows from investing activities	**(132.6)**	(129.0)
Cash flows from financing activities	**155.0**	155.4
Net increase in cash and cash equivalents	**11.8**	24.4

*Total accumulated NCI reported in the statement of financial position is $234.2m, comprising $233.5m attributable to Blackstone and $0.7m attributable to RHL. Total loss allocated to NCI reported in the comprehensive income statement is $11.6m, comprising $12.1m loss attributable to Blackstone and $0.5m profit attributable to RHL. Therefore, the total transactions with non-controlling interests recorded in the statement of changes in equity is $124.1m, comprising $123.9m attributable to Blackstone and $0.2m attributable to RHL.

17 Tax expense

Income tax is tax charged on trading activities during the year. This Note shows the breakdown of tax payable in the current period (current tax) and also tax that may become payable sometime in the future (deferred tax).

(a) Tax charged to the income statement

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Current tax:		
Current taxes on income for the year	**0.5**	–
Overseas tax on income for the year	**(12.4)**	(0.1)
	(11.9)	(0.1)
Double tax relief	**1.2**	1.1
Adjustments in respect of prior years	**0.7**	0.3
Total current tax	**(10.0)**	1.3
Deferred tax:		
Relating to the origination and reversal of temporary differences	**21.9**	(2.6)
Adjustments in respect of prior years	**(2.3)**	(0.2)
Total deferred tax	**19.6**	(2.8)
Total tax charged to the income statement	**9.6**	(1.5)

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.

(b) Tax credited to other comprehensive income

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Deferred tax (charge)/credit on actuarial gains/(losses) on defined benefit pension scheme	**(6.5)**	1.8

(c) Tax reconciliation

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise based on the weighted average rate of tax as follows:

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Profit/(loss) on ordinary activities before tax	**227.3**	(230.5)
Tax calculated at weighted average rate of tax on income	**(19.0)**	32.6
Non-deductible and non-taxable items	**2.4**	(0.7)
Taxes on income at rates in excess of the domestic rate and where credit is unavailable	**0.5**	1.2
Effect of temporary differences not recognised	**7.3**	(42.0)
Effect of revaluation of deferred tax following change in rate of tax	**20.0**	7.2
Other items	**0.1**	0.1
Adjustments to tax charge in respect of prior years	**(1.7)**	0.1
Total tax credited/(charged) to income statement	**9.6**	(1.5)

The weighted average rate of tax is based on the geographic split of profit across Group entities in jurisdictions with differing tax rates. As the mix of taxable profits changes, so will the weighted average rate of tax.

(d) Effect of post balance sheet rate changes

The main rate of UK corporation tax will increase to 25% from 1 April 2023 under Finance Act 2021 which was substantively enacted on 24 May 2021. The rate of 25% has been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2021.

18 Intangible assets

An intangible asset is an asset without any physical substance but which has long-term value to the business. With the exception of goodwill, syndicate participation rights at Lloyd's, trade names and the regulatory licences, which are classified as indefinite life assets, the values of these assets are reduced according to their useful life by way of amortisation. Amortisation is included as an expense in the income statement.

	Goodwill $m	Trade names $m	Distribution channels $m	Syndicate Participations $m	Regulatory licenses $m	Employee related $m	Software $m	Total $m
Cost:								
At 1 January 2020	45.9	0.5	52.4	70.8	7.5	1.2	44.2	222.5
Additions	–	–	–	–	–	–	6.5	6.5
Assets reclassified as held-for-sale	–	–	–	–	(7.5)	–	–	(7.5)
Disposals	–	–	–	–	–	–	(7.8)	(7.8)
Foreign exchange effect	–	–	–	–	–	–	1.4	1.4
At 31 December 2020	45.9	0.5	52.4	70.8	–	1.2	44.3	215.1
At 1 January 2021	**45.9**	**0.5**	**52.4**	**70.8**	**–**	**1.2**	**44.3**	**215.1**
Additions	**–**	**–**	**–**	**–**	**–**	**–**	**12.8**	**12.8**
Additions through acquisitions	**16.4**	**0.9**	**7.3**	**–**	**–**	**–**	**–**	**24.6**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(11.1)**	**(11.1)**
Foreign exchange effect	**(1.0)**	**(0.1)**	**(0.5)**	**–**	**–**	**–**	**(0.4)**	**(2.0)**
At 31 December 2021	**61.3**	**1.3**	**59.2**	**70.8**	**–**	**1.2**	**45.6**	**239.4**
Amortisation:								
At 1 January 2020	–	–	7.8	–	–	0.3	21.8	29.9
Charge for the year	–	–	3.5	–	–	0.4	6.8	10.7
Disposals	–	–	–	–	–	–	(7.8)	(7.8)
Foreign exchange effect	–	–	–	–	–	–	1.1	1.1
At 31 December 2020	–	–	11.3	–	–	0.7	21.9	33.9
At 1 January 2021	**–**	**–**	**11.3**	**–**	**–**	**0.7**	**21.9**	**33.9**
Charge for the year	**–**	**–**	**3.6**	**–**	**–**	**0.4**	**7.7**	**11.7**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(11.1)**	**(11.1)**
Foreign exchange effect	**–**	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
At 31 December 2021	**–**	**–**	**14.9**	**–**	**–**	**1.1**	**18.1**	**34.1**
Carrying amount:								
At 31 December 2020	45.9	0.5	41.1	70.8	–	0.5	22.4	181.2
At 31 December 2021	**61.3**	**1.3**	**44.3**	**70.8**	**–**	**0.1**	**27.5**	**205.3**

Additional information

The gross cost of software fully amortised but still in use is $18.8m (2020: $13.6m). All software additions in 2021 and 2020 were internally developed. The software amortisation charge for the year of $7.7m (2020: $6.8m) is included in the 'other operating expenses' line in the income statement. There were no impairments to software in 2021 (2020: nil). Assets not yet in use with a total cost of $10.2m (2020: $1.1m) are included in software. Further information is given in Note 5(b).

Impairment testing

Goodwill

Goodwill is reviewed annually for impairment and has been allocated to the Ambridge and Camargue cash-generating units (CGUs):

	31 December 2021 $m	31 December 2020 $m
Ambridge	**45.9**	45.9
Camargue	**15.4**	–
Total	**61.3**	45.9

The goodwill of the Group relates to the acquisitions of Ambridge and Camargue in 2019 and 2021, respectively and the recoverable amounts have been determined using a value in use calculation.

In respect of Ambridge, the value in use calculation uses cash flow projections based on business plans approved by senior management covering a three-year period and subsequent cash flows which assume a nil growth rate. These cash flows have been discounted using a risk adjusted discount rate of 10.35% (2020: 9.9%). In the goodwill impairment review, the recoverable amount significantly exceeds the carrying value of the CGU including its associated goodwill and it is considered that a reasonably possible change in key assumptions will not cause the carrying value of the CGU to exceed its recoverable amount.

The key assumptions used for the impairment calculations were that cash flows and profit levels will mainly depend on the level of commissions earned by Ambridge. The business plans reflect senior management's best estimates based on historical experience, growth rates for the respective insurance industry sector, the insurance pricing cycle and expected results from ongoing and future strategic business unit product and distribution strategies.

Camargue was acquired on 4 October 2021 and has been subject to a purchase price allocation exercise in Q4 to determine the value of the goodwill at acquisition. The economic situation of the company and general economic environment at the year-end is not materially different from that at the point of recognition, or the period during which the purchase price allocation exercise was performed. In the absence of indicators of impairment, therefore, Brit has not performed a further quantitative exercise to consider the value-in-use of the goodwill at year-end.

Syndicate participations

Syndicate participations are indefinite life intangible assets and are therefore reviewed annually for impairment. They have been allocated to cash-generating units (CGUs) as follows:

	31 December 2021 $m	31 December 2020 $m
Global Specialty Direct	**52.7**	52.7
Global Specialty Reinsurance	**18.1**	18.1
Total	**70.8**	70.8

These CGUs are based upon operating segments which earn revenues and incur expenses and whose results are regularly reviewed by management.

The recoverable amounts of the CGUs have been determined using a value-in-use calculation.

Each value-in-use calculation uses pre-tax cash flow projections based on business plans approved by senior management covering a three-year period and subsequent cash flows which assume a nil growth rate. These cash flows have been discounted using a risk adjusted pre-tax discount rate of 10.35% (2020: 9.9%). In each syndicate participation impairment review, the recoverable amount significantly exceeds the carrying value of the CGU, including its associated syndicate participations and it is considered that a reasonably possible change in key assumptions will not cause the carrying value of the CGU to exceed its recoverable amount.

18 Intangible assets (continued)

The key assumptions used for the impairment calculations were that cash flows and profit levels will mainly depend on the level of premiums written by each strategic business unit, the rates at which these premiums are written and the claims activity on both prior and future underwriting years. The business plans reflect senior management's best estimates based on historical experience, growth rates for the respective insurance industry sector, the insurance pricing cycle, and expected results from ongoing and future strategic business unit product and distribution strategies.

Commissions and other insurance related expenses are assumed to remain materially in line with current amounts relative to premium levels.

Trade names

Trade names are indefinite life intangible assets and are therefore reviewed annually for impairment. They have been allocated to cash-generating units (CGUs) as follows:

	31 December 2021 $m	31 December 2020 $m
Ambridge	**0.5**	0.5
Camargue	**0.8**	–
Total	**1.3**	0.5

Trade names were acquired in 2019 as part of the Ambridge acquisition, and subsequently, in 2021, as part of the Camargue acquisition.

Regarding the Ambridge trade name, the recoverable amounts have been determined based on the net present value of future cash flows generated by Ambridge.

The projections used are based on business plans approved by senior management. The projections are covering a three-year period and subsequent cash flows which assume a nil growth rate. The key assumptions used for the impairment calculations are the level of projected commissions and the risk adjusted pre-tax discount rate of 10.35%.

Camargue was acquired on 4 October 2021 and has been subject to a purchase price allocation exercise in Q4 to determine the value of the trade name at acquisition. The economic situation of the company and general economic environment at the year-end is not materially different from that at the point of recognition or the period during which the purchase price allocation exercise was performed. In the absence of indicators of impairment, therefore, Brit has not performed a further quantitative exercise to consider the value-in-use of the trade name at year-end.

Regulatory licenses

On 30 April 2018, as part of Brit's acquisition of Commonwealth Insurance Company of America from TIG Insurance Company, an intangible asset was recognised in respect of the $7.5m paid for its operating licences in 48 US states.

As at 31 December 2020, the carrying amount of the Commonwealth business was expected to be recovered principally through a sale transaction so the assets, including the regulatory licenses, and liabilities of this disposal group were presented separately within the 'assets classified as held for sale' and 'liabilities directly associated with assets classified held for sale' categories on the consolidated statement of financial position.

The sale transaction completed on 5 February 2021, upon which all assets, including the regulatory licenses, and liabilities relating to the Commonwealth business were derecognised.

19 Property, plant and equipment

This Note gives a breakdown of the type of assets in use such as computer equipment, office fixtures and fittings and furniture. The value of these assets are reduced according to their useful life by way of depreciation. Depreciation is included as an expense in the income statement. An annual assessment of the carrying value of these assets is carried out and, if necessary, an impairment charge to the income statement is made.

	Office refurbishment $m	Computers and office machinery, furniture and equipment $m	Land $m	Buildings $m	Right of use assets $m	Total $m
Cost:						
At 1 January 2020	24.5	13.3	–	–	54.7	92.5
Additions	0.3	0.9	–	–	–	1.2
Disposals	–	(1.1)	–	–	(1.5)	(2.6)
Foreign exchange effect	0.7	0.3	–	–	1.5	2.5
At 31 December 2020	25.5	13.4	–	–	54.7	93.6
At 1 January 2021	**25.5**	**13.4**	–	–	**54.7**	**93.6**
Additions	**1.2**	**0.5**	**–**	**–**	**6.9**	**8.6**
Additions through acquisitions	**–**	**0.1**	**0.4**	**0.7**	**–**	**1.2**
Divestiture	**(1.1)**	**(0.1)**	**–**	**–**	**(0.7)**	**(1.9)**
Disposals	**(1.2)**	**(8.4)**	**–**	**–**	**(2.3)**	**(11.9)**
Foreign exchange effect	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.6)**	**(1.0)**
At 31 December 2021	**24.3**	**5.4**	**0.3**	**0.6**	**58.0**	**88.6**
Depreciation:						
At 1 January 2020	8.0	10.7	–	–	5.9	24.6
Charge for the year	2.3	0.9	–	–	5.7	8.9
Disposals	–	(1.1)	–	–	(0.3)	(1.4)
Foreign exchange effect	0.1	0.4	–	–	0.5	1.0
At 31 December 2020	10.4	10.9	–	–	11.8	33.1
At 1 January 2021	**10.4**	**10.9**	**–**	**–**	**11.8**	**33.1**
Charge for the year	**2.1**	**1.0**	**–**	**–**	**6.8**	**9.9**
Impairments	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Divestiture	**(0.1)**	**–**	**–**	**–**	**(0.6)**	**(0.7)**
Disposals	**(1.2)**	**(8.4)**	**–**	**–**	**(1.2)**	**(10.8)**
Foreign exchange effect	**(0.3)**	**(0.1)**	**–**	**–**	**(0.3)**	**(0.7)**
At 31 December 2021	**10.9**	**3.4**	**–**	**–**	**16.7**	**31.0**
Carrying amount:						
At 31 December 2020	15.1	2.5	–	–	42.9	60.5
At 31 December 2021	**13.4**	**2.0**	**0.3**	**0.6**	**41.3**	**57.6**

The gross cost of property, plant and equipment fully depreciated but still in use is $9.5m (2020: $9.4m). The depreciation charge for the year of $9.9m (2020: $8.9m) is included in the 'acquisition costs' and 'other operating expenses' lines in the income statement. An impairment charge of $0.2m was recognised in 2021 (2020: nil). A dilapidations provision of $2.5m (2020: $2.5m) has been set up in respect of the refurbishment of rented property.

Further information on depreciation and capital expenditure by segment is given in Note 5(b).

20 Deferred acquisition costs

Acquisition costs are costs incurred in underwriting insurance risks and include commissions paid to third parties and some internally generated costs such as underwriter salaries. These costs are deferred and are charged to the income statement over the duration of the contract. The movement in these deferred costs and releases to the income statement is shown in this Note.

	2021 $m	2020 $m
At 1 January	**247.3**	243.6
Costs deferred during the year	**782.8**	602.9
Amortisation charge for the year	**(708.3)**	(599.2)
At 31 December	**321.8**	247.3

21 Deferred taxation

This Note describes the tax that may have to be paid in the future. Deferred tax arises from differences in the way that tax is calculated for accounting purposes and tax purposes.

The deferred tax asset is attributable to temporary differences arising on the following:

	Intangible assets $m	Underwriting $m	Other $m	Total $m
At 1 January 2020	0.9	93.0	4.8	98.7
Movements in the year:				
(Charged)/credited to income statement	(0.3)	(32.7)	28.8	(4.2)
Foreign exchange effect	–	–	0.4	0.4
At 31 December 2020	0.6	60.3	34.0	94.9
Set-off of deferred tax liabilities pursuant to set-off provisions				(45.1)
Net deferred tax asset at 31 December 2020				49.8
At 1 January 2021	**0.6**	**60.3**	**34.0**	**94.9**
Movements in the year:				
Acquisitions	**–**	**–**	**0.5**	**0.5**
(Charged)/credited to income statement	**(0.3)**	**(38.5)**	**58.6**	**19.8**
Foreign exchange effect	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2021	**0.3**	**21.8**	**93.0**	**115.1**
Set-off of deferred tax liabilities pursuant to set-off provisions				**(67.2)**
Net deferred tax asset at 31 December 2021				**47.9**

Deferred tax assets, all of which arise in the United Kingdom, are considered recoverable where it is expected that there will be future taxable income based on the approved business plans and budgets of the Group. The losses can be carried forward indefinitely and have no expiry date. See Note 3.9 for further detail on the estimation of deferred tax assets.

Deferred tax assets have not been recognised in respect of certain losses carried forward of $nil (2020: $16.8m) and in respect of undeclared year of account losses of $285.2m (2020: $231.1m) as it is not considered probable that they can be utilised in the foreseeable future.

Deferred tax has not been provided in respect of the profits of subsidiaries in the Group as tax exemptions, for example the participation exemption, are expected to apply.

As at 31 December 2020, deferred tax assets arising on decelerated capital allowances of $0.3m had been provided for due to uncertainty over the timing of their utilisation. No such amount was recorded at 31 December 2021.

The deferred tax liability is attributable to temporary differences arising on the following:

	Pensions $m	Intangible assets $m	Underwriting $m	Other $m	Total $m
At 1 January 2020	(18.2)	(24.0)	(12.9)	(2.5)	(57.6)
Movements in the year:					
(Charged)/credited to income statement	(0.4)	(2.0)	3.5	0.3	1.4
Tax relating to components of other comprehensive income (Note 17(b))	1.8	–	–	–	1.8
Foreign exchange effect	(0.3)	–	0.5	(0.8)	(0.6)
At 31 December 2020	(17.1)	(26.0)	(8.9)	(3.0)	(55.0)
Set-off of deferred tax assets pursuant to set-off provisions					45.1
Net deferred tax liability at 31 December 2020					(9.9)
At 1 January 2021	**(17.1)**	**(26.0)**	**(8.9)**	**(3.0)**	**(55.0)**
Movements in the year:					
Acquisitions	**(16.5)**	**(2.3)**	**–**	**–**	**(18.8)**
(Charged)/credited to income statement	**(0.3)**	**(5.7)**	**4.6**	**1.2**	**(0.2)**
Tax relating to components of other comprehensive income (Note 17(b))	**(6.5)**	**–**	**–**	**–**	**(6.5)**
Foreign exchange effect	**0.6**	**0.2**	**(0.4)**	**0.1**	**0.5**
At 31 December 2021	**(39.8)**	**(33.8)**	**(4.7)**	**(1.7)**	**(80.0)**
Set-off of deferred tax assets pursuant to set-off provisions					**67.1**
Net deferred tax liability at 31 December 2021					**(12.9)**

22 Insurance and reinsurance contracts

This Note deals with balances carried in respect of insurance contracts (liabilities) and reinsurance contracts (assets). It examines the statement of financial position, splitting both insurance and reinsurance balances into their component parts, and explains the assumptions applied in arriving at these figures. The Note also shows how claims have developed over a period (before and after the effects of reinsurance) of time by setting out the cumulative development at the end of each calendar year in respect of claims arising from business written in a particular underwriting year. It ends by analysing the movements in insurance and reinsurance contracts during the year.

(a) Balances on insurance and reinsurance contracts

	31 December 2021 $m	31 December 2020 $m
Gross		
Claims reported and loss adjustment expenses	**1,815.9**	1,783.3
Unexpired risk reserve	**–**	12.4
Claims incurred but not reported	**3,325.0**	2,997.0
	5,140.9	4,792.7
Unearned premiums	**1,392.0**	1,020.3
Total gross liabilities	**6,532.9**	5,813.0
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	**685.7**	578.2
Claims incurred but not reported	**1,208.7**	914.8
	1,894.4	1,493.0
Unearned premiums	**396.8**	271.1
Total reinsurers' share of liabilities	**2,291.2**	1,764.1
Net		
Claims reported and loss adjustment expenses	**1,130.2**	1,205.1
Unexpired risk reserve	**–**	12.4
Claims incurred but not reported	**2,116.3**	2,082.2
	3,246.5	3,299.7
Unearned premiums	**995.2**	749.2
Total net insurance liabilities	**4,241.7**	4,048.9

Insurance contracts – assumptions and changes in assumptions

Process used to decide on assumptions required

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

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. It is typical to consider the attritional claims separately from the large claims, separately from the catastrophe losses. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

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

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

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

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

In addition to the above statistical techniques, alternative approaches are often considered for a number of classes of business (e.g. casualty treaty) and particular events (e.g. natural catastrophes), therefore alternative methodologies may be employed to add additional rigour to the process. For example, losses from a catastrophe are typically formed from reviewing potential exposure on a policy by policy basis and taking account of market intelligence to determine Brit's share of the loss. The estimate of large claims ultimate will typically be formed from estimating the number of unreported large claims, using the standard statistical techniques described above, and multiplying this with the expected severity of such losses.

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

Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are earned on the same basis as the inwards business being protected. Where outward reinsurance is impacted by seasonal claims variability, e.g. catastrophe covers, the earning of the premium is adjusted to reflect the seasonality of the claims.

Changes in assumptions

The Group did not change its estimation techniques from the insurance contract assumptions disclosed in this Note during the year.

Claims development tables

The tables below show the development of claims over a period of time on a gross and net of reinsurance basis.

The claims development tables have been presented on an underwriting year basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive underwriting year at the end of each year, together with cumulative paid claims at the end of the current year.

The claims have been adjusted to make them comparable on a year by year basis.

They have been grossed up to include 100% of the managed syndicate claims rather than the claims that reflect the Group percentage ownership of each syndicate's underwriting capacity during the respective underwriting years. In addition, claims in currencies other than US dollars have been retranslated at 31 December 2021 exchange rates.

22 Insurance and reinsurance contracts (continued)

Ultimate gross claims

Underwriting year	2012 and prior years	2013	2014	2015	2016	2017	2018	2019	2020	2021	Intra Group and other underwriting adjustments	Total
Claims ratio:												
At end of underwriting year	76.1%	69.9%	70.2%	70.6%	76.6%	101.3%	89.3%	75.7%	79.9%	74.3%		
One year later	71.6%	70.0%	73.6%	71.5%	85.5%	109.0%	96.4%	84.6%	80.7%			
Two years later	72.3%	70.1%	73.3%	73.5%	89.4%	109.0%	101.5%	86.5%				
Three years later	70.5%	69.8%	74.6%	72.5%	88.1%	110.9%	100.0%					
Four years later	73.2%	71.2%	74.2%	70.4%	89.5%	110.1%						
Five years later	74.1%	70.6%	73.1%	70.5%	91.5%							
Six years later	73.4%	69.7%	72.7%	71.2%								
Seven years later	72.4%	68.2%	71.5%									
Eight years later	71.5%	67.2%										
Nine years later	71.7%											
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total ultimate gross claims at 31 December 2021	11,083.2	950.1	1,102.4	1,043.4	1,398.2	1,735.9	1,638.2	1,471.9	1,463.8	1,560.3	444.5	23,891.9
Less accumulated gross paid claims	(10,704.7)	(845.8)	(959.1)	(817.8)	(1,057.7)	(1,287.5)	(1,020.3)	(618.5)	(429.1)	(83.7)	(87.9)	(17,912.1)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	–	–	–	(27.8)	(720.2)	(125.5)	(873.5)
Claims handling provision and other corporate adjustments	5.3	1.6	2.1	3.4	4.8	5.9	8.5	10.8	12.5	8.8	(29.1)	34.6
Total outstanding gross claims at 31 December 2021	383.8	105.9	145.4	229.0	345.3	454.3	626.4	864.2	1,019.4	765.2	202.0	5,140.9

Ultimate net claims

Underwriting year	2012 and prior years	2013	2014	2015	2016	2017	2018	2019	2020	2021	Intra Group and other underwriting adjustments	Total
Claims ratio:												
At end of underwriting year	82.4%	75.4%	76.1%	77.7%	83.1%	100.1%	95.7%	82.2%	89.6%	81.0%		
One year later	78.1%	76.8%	79.3%	80.5%	90.3%	100.9%	102.4%	94.5%	77.3%			
Two years later	77.8%	76.4%	78.4%	81.2%	91.7%	100.9%	106.8%	97.7%				
Three years later	75.6%	76.4%	79.1%	78.9%	91.4%	103.8%	107.3%					
Four years later	76.6%	77.1%	77.7%	76.3%	92.1%	106.0%						
Five years later	76.7%	75.0%	77.3%	76.4%	94.1%							
Six years later	75.5%	73.7%	77.2%	77.8%								
Seven years later	74.4%	71.9%	76.0%									
Eight years later	73.2%	71.1%										
Nine years later	72.9%											
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total ultimate net claims at 31 December 2021	8,211.6	715.7	832.2	796.2	899.9	1,006.7	1,036.5	1,009.4	995.5	1,122.2	218.7	16,844.6
Less accumulated net paid claims	(8,019.4)	(664.5)	(739.4)	(640.2)	(748.8)	(798.4)	(705.3)	(436.2)	(323.5)	(79.9)	(63.8)	(13,219.4)
Unearned premium portion of net ultimate claims	–	–	–	–	–	–	–	–	(20.9)	(523.6)	65.0	(479.5)
Claims handling provision, bad debt provision and other corporate adjustments	4.9	1.7	2.2	3.4	4.8	6.0	8.6	11.1	15.9	8.8	33.4	100.8
Total outstanding net claims at 31 December 2021	197.1	52.9	95.0	159.4	155.9	214.3	339.8	584.3	667.0	527.5	253.3	3,246.5

The percentages in the gross and net triangles are shown on an ultimate loss basis inclusive of catastrophe losses by year of account.

The 2010, 2016, 2017, 2018, 2019 and 2020 years of account include the impact of natural catastrophes which occurred in the future calendar years and which attached back to policies incepting in those respective years of account. The 2020 and prior years of account will also be impacted by the loss portfolio reinsurance contracts entered into in 2018 and 2021 with RiverStone Managing Agency Limited (for and on behalf of Lloyd's Syndicate 3500).

During 2021, the net aggregate reserve releases from prior years amounted to $100.1m, which included a $50.7m release from 2020 and a $51.2m release from 2019 and prior years from Syndicate 2987 and a strengthening of $1.8m from the other group entities. By comparison in 2020, the net aggregate reserve releases from prior years amounted to $63.4m, which included $16.5m release from 2019 and $36.3m from 2018 and prior from Syndicate 2987 and $10.6m from other Group entities.

Reserves in London Direct experienced releases of $62.9m (2020: $66.3m), London RI experienced releases of $18.8m (2020: $24.3m), Overseas Distribution experienced releases of $15.7m (2020: strengthening of $36.0m), Discontinued experienced releases of $4.6m (2020: strengthening of $1.1m) and Other experienced strengthening of $1.8m (2020: release of $9.9m).

22 Insurance and reinsurance contracts (continued)

(b) Movements in insurance and reinsurance contracts

(i) Claims and loss adjustment expenses

	31 December 2021			31 December 2020		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
As at 1 January	**4,792.7**	**(1,493.0)**	**3,299.7**	4,296.7	(1,345.3)	2,951.4
Cash paid for claims settled in the year	**(1,321.5)**	**437.6**	**(883.9)**	(1,326.8)	391.4	(935.4)
Increase in liabilities	**1,724.1**	**(842.6)**	**881.5**	1,744.4	(505.3)	1,239.1
Net foreign exchange differences	**(54.4)**	**3.6**	**(50.8)**	78.4	(33.8)	44.6
As at 31 December	**5,140.9**	**(1,894.4)**	**3,246.5**	4,792.7	(1,493.0)	3,299.7

(ii) Unearned premiums

	31 December 2021			31 December 2020		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
As at 1 January	**1,020.3**	**(271.1)**	**749.2**	969.4	(282.8)	686.6
Premiums written in the year	**3,238.3**	**(1,240.0)**	**1,998.3**	2,424.4	(648.8)	1,775.6
Premiums earned during the year	**(2,867.9)**	**1,113.7**	**(1,754.2)**	(2,372.2)	661.5	(1,710.7)
Net foreign exchange differences	**1.3**	**0.6**	**1.9**	(1.3)	(1.0)	(2.3)
As at 31 December	**1,392.0**	**(396.8)**	**995.2**	1,020.3	(271.1)	749.2

(c) Lloyd's Part VII transfer

On 25 November 2020 the High Court sanctioned the transfer to Lloyd's Insurance Company S.A. (LIC) of syndicates' European liabilities in accordance with Part VII of the Financial Services and Markets Act 2000. The scheme took effect on 30 December 2020, whereupon all relevant policies (and related liabilities) underwritten by the Group's syndicates for years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance) were transferred to LIC. On the same date, a 100% Quota Share Reinsurance Agreement was entered into whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the syndicates that wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

The combined effect of the two transactions had no economic impact for the Group, and accordingly there was no impact on the consolidated income statement for the period ending 31 December 2020 or the consolidated statement of financial position as at 31 December 2020. Underwriting results for the transferred policies were reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. For 2021 and future years, results relating to these risks are reported under the Reinsurance Accepted class of business, reflecting the new contractual arrangement with LIC.

Subsequent to the 2020 year-end, on 4 January 2021, under the 100% Quota Share Reinsurance Agreement between the Syndicate and LIC, the Group was required to set up advanced funds in segregated Part VII settlement accounts managed by the Managing Agent on behalf of LIC, from which claims with respect to transferred liabilities will be settled. As this transaction took place after the end of the 2020 reporting period, there was no impact on the Group's consolidated statement of financial position, or consolidated income statement as at 31 December 2020.

23 Employee benefits

This Note explains the pension schemes operated by the Group for its employees. For the Group's defined benefit scheme (in which no further benefits are being accrued), it sets out the amount carried on the Group statement of financial position, gains and losses incurred during the year, amounts paid into the scheme, together with further information about the scheme. For the Group's defined contribution schemes, it sets out the costs incurred during the year.

(a) Defined benefit pension schemes

The Group has two funded defined benefit pension schemes providing pensions benefits to its members: the Brit Group Services Limited Retirement Benefits Scheme (the "Scheme") and the RiverStone Holdings Management Pension and Life Assurance Plan (the "Plan").

With effect from 18 August 2021, Brit Insurance Holdings Limited and the trustees of the Plan (plus other parties) entered into an agreement where Brit Insurance Holdings Limited became the Principal Company and assumed the full liabilities and assets of the Plan. On initial recognition, the Plan's surplus was $44.9m on an IAS 19 basis and was recognised as an asset in the statement of financial position, along with a corresponding deferred tax liability of $16.5m and a capital contribution of $28.4m.

The Scheme closed to new entrants on 4 October 2001 and closed to future accrual of benefits on 31 December 2011. The Plan only has deferred members and is closed to new entrants. Following closure to future accrual, benefits now increase broadly in line with inflation. The weighted average duration to payment of the Scheme's expected cash flows is 16 years (2020: 17 years) and 18 years for the Plan.

Both schemes are approved by HMRC for tax purposes. The schemes are operated from separate trusts, which have assets that are held separately from the Group. The trusts are managed by Trustees, who are responsible for payment of the benefits and management of the schemes' assets.

The schemes are subject to UK regulations overseen by the Pensions Regulator, which require the Group and Trustees to agree a funding strategy and contribution schedule for the schemes every three years. The most recent triennial review of the Scheme was undertaken as at 31 July 2018 and identified a funding surplus of £9.5m. The most recent triennial review of the Plan was undertaken as at 31 July 2020 and identified a funding deficit of £35.3m. Both the Scheme and the Plan are currently undergoing new valuations.

Following the 2018 valuation of the Scheme, the Group agreed to continue to pay contributions of £2m pa until 31 July 2024, however these are now paid into a holding account. These contributions are payable by Brit Group Services Limited and backed-up by cross-company guarantees from Brit Insurance Holdings Limited. Following the completion of the 2020 valuation of the Plan, the Group is paying deficit reduction contributions of £352,500 per month until 31 March 2026, plus £15,500 per month in respect of administrative expenses. As part of the transfer of the Plan to the Group, the Plan received a special payment from Fairfax of £8.43 million.

If there is a shortfall against the funding target, then the Company and Trustees will agree on deficit contributions to meet this deficit over a period. There is a risk to the Company that adverse experience could lead to a requirement for the Company to make additional contributions in excess of those above to recover any deficit that arises.

Net amount recognised in the statement of financial position:

	31 December 2021 $m Scheme	31 December 2021 $m Plan	31 December 2020 $m Scheme
Present value of defined benefit obligation	**(202.5)**	**(182.3)**	(222.2)
Fair value of scheme assets	**268.0**	**230.6**	271.0
Net pension asset	**65.5**	**48.3**	48.8

23 Employee benefits (continued)

Changes in the net pension asset recognised in the statement of financial position:

	31 December 2021 $m Scheme	31 December 2021 $m Plan	31 December 2020 $m Scheme
Opening statement of financial position	**48.8**	**–**	51.9
Acquisition of pension asset	**–**	**44.9**	–
Credit to income statement	**0.7**	**–**	1.0
Foreign exchange effect	**(0.7)**	**(0.6)**	1.4
Amount recognised outside income statement	**16.7**	**2.0**	(5.5)
Contributions paid	**–**	**2.0**	–
Closing statement of financial position	**65.5**	**48.3**	48.8

A net pension asset is recognised on the statement of financial position as there is an unconditional right of the Group to be refunded the surplus in the schemes.

Net credit recognised in the income statement comprised:

	31 December 2021 $m Scheme	31 December 2021 $m Plan	31 December 2020 $m Scheme
Net interest on net defined benefit asset	**0.7**	**0.3**	1.0
Past service cost	**–**	**–**	–
Running costs	**–**	**(0.3)**	–
Net credit	**0.7**	**–**	1.0

This net credit has been recognised in the 'other operating expenses' line in the income statement. Contributions to the Group's defined contribution pension arrangements are in addition to those set out in this note and are charged directly to the income statement.

The allocation of the Scheme's and Plan's assets were as follows:

	31 December 2021 $m Scheme	31 December 2021 $m Plan	31 December 2020 $m Scheme
Equities	**11.9**	**130.5**	11.2
Liability Driven Investment funds (LDI)	**176.3**	**66.9**	175.6
Other debt securities	**73.1**	**–**	72.0
Cash and net current assets	**5.2**	**33.2**	7.7
Gold and gold mining equities	**–**	**–**	2.1
Other scheme assets	**1.5**	**–**	2.4
Fair value of scheme assets	**268.0**	**230.6**	271.0

All schemes' assets have quoted prices in active markets and the schemes do not invest directly in property occupied by the Group or in financial securities issued by the Group.

Investment strategy

The Trustee of each scheme determine the scheme's investment strategy after taking appropriate advice from their investment consultants. The management of the assets is delegated to the investment managers. The Trustee's investment objectives are to ensure that the scheme has adequate resources to meet the members' entitlements under the Trust Deed and Rules as they fall due, and thereafter to minimise long-term costs of the Scheme by maximising the return on the assets. Investment risk for the Scheme is managed by investing in low risk assets which are expected to move in a similar way to the benefits. The assets include LDI which aims to match a significant part of the scheme's inflation-linked benefits and therefore help to reduce the Group's exposure to interest and inflation risks.

Movements in the present value of the defined benefit obligation were as follows:

	31 December 2021 $m Scheme	31 December 2021 $m Plan	31 December 2020 $m Scheme
Opening defined benefit obligation	**222.2**	**–**	193.3
Acquisition of pension asset	**–**	**188.3**	–
Interest on defined benefit obligation	**2.8**	**1.1**	3.9
Remeasurements due to:			
Changes in financial assumptions	**(14.9)**	**(5.5)**	27.7
Changes in demographic assumptions	**1.5**	**2.7**	–
Experience on benefit obligations	**–**	**1.3**	(2.2)
Foreign exchange effect	**(1.7)**	**(3.1)**	7.6
Benefits paid	**(7.4)**	**(2.5)**	(8.1)
Closing defined benefit obligation	**202.5**	**182.3**	222.2

Movements in the fair value of the schemes assets were as follows:

	31 December 2021 $m Scheme	31 December 2021 $m Plan	31 December 2020 $m Scheme
Opening fair value of scheme assets	**271.0**	**–**	245.2
Acquisition of pension asset	**–**	**233.2**	–
Interest income	**3.5**	**1.4**	4.9
Actual return excluding interest income	**3.3**	**0.5**	20.1
Running costs	**–**	**(0.3)**	–
Foreign exchange effect	**(2.4)**	**(3.7)**	8.9
Contributions by the employer	**–**	**2.0**	–
Benefits paid	**(7.4)**	**(2.5)**	(8.1)
Closing fair value of scheme assets	**268.0**	**230.6**	271.0

23 Employee benefits (continued)

The principal actuarial assumptions at the year-end were:

	31 December 2021 $m Scheme	31 December 2021 $m Plan	31 December 2020 $m Scheme
Discount rate	**1.92% pa**	**1.95% pa**	1.29% pa
Retail Prices Index (RPI) inflation	**3.41% pa**	**3.39% pa**	3.05% pa
Consumer Prices Index (CPI) inflation	**2.57% pa**	**2.78% pa**	2.20% pa
Pension increases in payment	**3.29% pa**	**3.27% pa**	2.98% pa
Mortality assumptions:			
Life expectancy of male aged 60 at statement of financial position date	**27.9 years**	**27.9 years**	27.8 years
Life expectancy of female aged 60 at statement of financial position date	**30.6 years**	**30.2 years**	30.0 years
Life expectancy of male aged 60 retiring in 20 years' time	**29.4 years**	**29.4 years**	29.4 years
Life expectancy of female aged 60 retiring in 20 years' time	**32.0 years**	**31.6 years**	31.5 years

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

Sensitivity analysis:

Assumption	Change in assumption	Change in defined benefit obligation at end of the year Scheme	Change in defined benefit obligation at end of the year Plan
Discount rate	Decrease by 0.5% pa	Increase by $16.9m	Increase by $16.9m
Future RPI inflation increases	Increase by 0.5% pa	Increase by $10.4m	Increase by $9.1m
Future CPI inflation increases	Increase by 0.5% pa	Increase by $2.0m	Increase by $1.8m
Assumed life expectancy at age 60	Increase by 1 year	Increase by $9.0m	Increase by $6.0m

The calculations in this section have been carried out using the same method and data as the Group's pensions and accounting figures with each assumption adjusted as shown above. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result.

Risks:
The Group is exposed to a number of risks in relation to its defined benefit schemes, the most significant of which are detailed below:

Risk	
Investment strategy	Changes in asset values are not matched by changes in the scheme's defined benefit obligation. For example, if gilt yields rise with no changes in corporate bond yields, the net pension asset would reduce.
Investment return	Future investment returns are lower than anticipated and so additional contributions are required from the Group to pay all the benefits promised.
Improvements in life expectancy	Scheme members live longer and so benefits are payable for longer than anticipated.
Inflation	Actual inflation is higher and so benefit payments are higher than anticipated.
Regulatory	In future the scheme may have backdated claims or liabilities arising from future legislation, emerging practice or court judgments.

(b) Brit Group Services Limited – Defined Contribution Personal Pension Plan
Brit Group Services Limited operates a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Group Services Limited to the fund and amounted to $7.4m (2020: $6.1m).

At 31 December 2021 no contributions were payable to the fund (2020: nil).

(c) Brit Insurance Services USA Inc. – 401(k) Safe Harbor Plan

Brit Insurance Services USA Inc. operates a '401(k) Safe Harbor Plan'. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Due to the movement of staff from Brit Insurance Services USA Inc. to Ambridge USA Service Company Inc., from 1 April 2021 onwards, any further contributions have been payable by Ambridge USA Service Company Inc.

The pension cost charge represents contributions payable by Brit Insurance Services USA Inc. and Ambridge USA Service Company Inc. to the fund and amounted to $0.7m (2020: $0.9m).

$0.2m of contributions were paid by Brit Insurance Services USA Inc and $0.5m of contributions were paid by Ambridge USA Service Company Inc.

At 31 December 2021 no contributions were payable to the fund (2020: nil).

(d) Brit Insurance Services USA Inc. – Nonqualified deferred compensation plan

Brit Insurance Services USA Inc. operates a '409(a) Nonqualified deferred compensation plan'. The assets of the scheme are not held separately from those of the Group.

Due to the movement of staff from Brit Insurance Services USA Inc. to Ambridge USA Service Company Inc., from 1 April 2021 onwards, any further pension payments have been payable by Ambridge USA Service Company Inc.

No pension payments were made by Brit Insurance Services USA Inc. or Ambridge USA Service Company Inc. to the fund in 2021 (2020: nil).

(e) BGS Services (Bermuda) Limited – Registered plan

BGS Services (Bermuda) Limited operates a registered plan for Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by BGS Services (Bermuda) Limited to the fund and amounted to $73k (2020: $51k).

At 31 December 2021 no contributions were payable to the fund (2020: nil).

(f) BGS Services (Bermuda) Limited – Unregistered plan

BGS Services (Bermuda) Limited operates an unregistered plan for non-Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by BGS Services (Bermuda) Limited to the fund and amounted to $3.5k (2020: $37k).

At 31 December 2021 no contributions were payable to the fund (2020: nil).

(g) Sussex Capital Management Limited – Unregistered plan

Sussex Capital Management Limited operates an unregistered plan for non-Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Sussex Capital Management Limited to the fund and amounted to $17.5k (2020: $33k).

At 31 December 2021 no contributions were payable to the fund (2020: nil).

(h) Ambridge Partners LLC – 401(k) Safe Harbor Plan, Profit sharing plan and trust

Ambridge Partners LLC operates a '401(k) Safe Harbor Plan'. The assets of the scheme are held separately from those of the Group in an independently administered fund. Employees may elect to contribute a percentage of their compensation. Ambridge Partners LLC does not match employee contributions.

(i) Ambridge Europe Limited – Defined Contribution Personal Pension Plan

Ambridge Europe Limited operates a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Ambridge Europe Limited to the fund and amounted to $101k (2020: $80k).

At 31 December 2021, contributions payable to the fund amounted to $23k (2020: $17k).

23 Employee benefits (continued)

(j) Ambridge long term incentive award

During the year ended 31 December 2021, the Group operated a variable award scheme in respect of Ambridge. The total cost recorded in the income statement for the year was $3.5m (2020: nil) and the carrying amount of the liability under the scheme at 31 December 2021 was $3.7m (2020: $0.2m). The scheme rewards senior employees for performance below a target loss ratio for relevant classes of business over a four-year period. The cost of the award is estimated using the financial performance of Ambridge over the performance period, as adjusted to reflect the timing of award payments subsequent to the performance period.

(k) Brit Reinsurance (Bermuda) Limited – Registered plan

Brit Reinsurance (Bermuda) Limited operates a registered plan for Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Reinsurance (Bermuda) Limited to the fund and amounted to $21k (2020: $18k).

At 31 December 2021 no contributions were payable to the fund (2020: nil).

(l) Camargue Underwriting Managers Proprietary Limited – Defined Contribution Personal Pension Plan

Camargue Underwriting Managers Proprietary Limited operates a defined contribution plan for employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions paid by Camargue Underwriting Managers Proprietary Limited, following its acquisition by the Group on 4 October 2021, to the fund and amounted to $14k (2020: nil).

At 31 December 2021 no contributions were payable to the fund (2020: nil).

24 Financial investments

This Note summarises the total value of the financial assets of the Group and shows how much has been invested in each class of asset. It also explains how each asset is categorised under three different levels of hierarchy, the methods used to value assets within each level and assets transferred between levels.

	31 December 2021 $m	31 December 2020 $m
Equity securities	**480.1**	376.7
Debt securities	**3,139.8**	3,392.5
Mortgages and loans	**38.3**	23.0
Specialised investment funds	**356.8**	264.4
Total	**4,015.0**	4,056.6

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

Basis for determining the fair value hierarchy of financial instruments

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

(a) Level one – quoted prices (unadjusted) in active markets for identical assets;

(b) Level two – inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(c) Level three – inputs for the assets that are not based on observable market data (unobservable inputs).

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

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

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

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

Valuation techniques

Level one
Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume). The fair values of securities sold short and the majority of the company's equities are based on published quotes in active markets. These also include government bonds and treasury bills issued in the US and in the UK.

Level two
Inputs include directly or indirectly observable inputs (other than level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US corporate debt securities and specialised investment funds. US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non-US government agency securities are priced with OTC quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

Level two common stocks are priced using a combination of independent pricing service providers and internal valuation models that rely on directly or indirectly observable inputs.

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

Level three debt instruments include corporate loans with unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date.

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

24 Financial investments (continued)

Disclosures of fair values in accordance with the fair value hierarchy

	Level one $m	Level two $m	Level three $m	Total $m
31 December 2021				
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**
31 December 2020				
Equity securities	247.7	–	129.0	376.7
Debt securities	1,739.3	1,637.8	15.4	3,392.5
Mortgages and loans	–	–	23.0	23.0
Specialised investment funds	–	249.2	15.2	264.4
	1,987.0	1,887.0	182.6	4,056.6

All unrealised gains of $63.6m (2020: losses of $11.6m) and realised gains of $59.4m (2020: gains of $7.5m) on financial investments held during the year, are presented in investment return in the consolidated income statement.

Transfers between fair value levels

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

Transfers from level two to level three

The only transfers between levels in the period were $50.0m (2020: $nil) of Specialised investment funds investments from level two to level three due to their inputs becoming unobservable during the year.

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 2020	183.2	15.2	–	16.8	215.2
Total losses recognised in the income statement	(9.0)	(0.1)	–	(1.6)	(10.7)
Purchases	2.3	–	21.9	–	24.2
Sales	(48.4)	–	–	–	(48.4)
Foreign exchange gains	0.9	0.3	1.1	–	2.3
At 31 December 2020	129.0	15.4	23.0	15.2	182.6
Transfers from level two to level three	**–**	**–**	**–**	**50.0**	**50.0**
Total gains 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 net gains recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to $24.5m (2020: losses of $10.7m). Included in this balance are $19.7m of unrealised gains (2020: losses of $6.3m) attributable to assets still held at the end of the year.

Sensitivity of level three financial investments measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of level three financial investments to changes in key assumptions.

	31 December 2021		31 December 2020	
	Carrying amount $m	Effect of possible alternative assumptions (+/-) $m	Carrying amount $m	Effect of possible alternative assumptions (+/-) $m
Equity securities	**134.6**	**2.8**	129.0	2.4
Debt securities	**36.5**	**(0.6)**	15.4	1.0
Mortgages and loans	**38.3**	**(0.3)**	23.0	1.2
Specialised investment funds	**60.5**	**1.1**	15.2	0.4
	269.9		182.6	

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 2021, 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.

25 Derivative contracts

This Note summarises the total value of the derivative contracts of the Group. It also explains how each derivative contract is categorised under three different levels of hierarchy, the valuation methods used to value derivative contracts and amounts transferred between levels. At 31 December 2021 and 31 December 2020, the options formed part of the investment management strategy, while the currency forwards formed part of the foreign exchange management strategy.

The disclosure provided in the tables below include derivatives recorded in the Group's statement of financial position.

Derivative contract assets	Gross amounts of receivables on derivative contract assets $m	Gross amounts of payables on derivative contract assets $m	Derivative contract assets presented in the statement of financial position $m
31 December 2021			
Currency forwards	**457.0**	**(448.1)**	**8.9**
Options	**0.5**	**–**	**0.5**
Industry loss warranty contracts	**0.1**	**–**	**0.1**
Sutton forward contract	**0.7**	**–**	**0.7**
Equity warrants	**4.9**	**–**	**4.9**
Total	**463.2**	**(448.1)**	**15.1**
31 December 2020			
Currency forwards	519.5	(508.9)	10.6
Options	1.5	(0.9)	0.6
Industry loss warranty contracts	0.2	–	0.2
Sutton forward contract	1.6	–	1.6
Total return swap	1.9	–	1.9
Total	524.7	(509.8)	14.9

25 Derivative contracts (continued)

Derivative contract liabilities

	Gross amounts of payables on derivative contract liabilities $m	Gross amounts of receivables on derivative contract liabilities $m	Derivative contract liabilities presented in the statement of financial position $m
31 December 2021			
Currency forwards	**(680.7)**	**668.5**	**(12.2)**
Total return swap	**(0.3)**	**–**	**(0.3)**
Total	**(681.0)**	**668.5**	**(12.5)**
31 December 2020			
Currency forwards	(634.3)	625.1	(9.2)
Total	(634.3)	625.1	(9.2)

Disclosures of fair values in accordance with the fair value hierarchy

	Level two $m	Level three $m	Total $m
31 December 2021			
Derivative contract assets	**8.9**	**6.2**	**15.1**
Derivative contract liabilities	**(12.5)**	**–**	**(12.5)**
31 December 2020			
Derivative contract assets	12.7	2.2	14.9
Derivative contract liabilities	(9.2)	–	(9.2)

Valuation techniques

Level two

The fair value of the vast majority of the Group's derivative contracts are based primarily on non-binding third-party broker-dealer quotes that are prepared using level two inputs. Where third-party broker-dealer quotes are used, typically one quote is obtained from a broker-dealer with particular expertise in the instrument being priced.

The valuation technique used to determine the fair value of currency forwards is derived from observable inputs such as active foreign-exchange and interest-rate markets that may require adjustments for certain unobservable inputs.

Level three

CPI-linked derivatives are classified as level three and valued using broker-dealer quotes which management has determined utilise market observable inputs except for the inflation volatility input which is not market observable. The reasonableness of the fair values of CPI-linked derivative contracts are assessed by comparing the fair values received from third-party broker-dealers to recent market transactions where available and values determined using third-party pricing software based on the Black-Scholes option pricing model for European-style options that incorporates market observable and unobservable inputs such as the current value of the relevant CPI underlying the derivative, the inflation swap rate, nominal swap rate and inflation volatility. The fair values of CPI-linked derivative contracts are sensitive to assumptions such as market expectations of future rates of inflation and related inflation volatilities.

The put and call options and forward contracts that the Group has in respect of its associated undertakings have been classified as level three as the valuation of these derivatives 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 2020	2.1
Purchases	7.0
Total losses recognised in the income statement	(9.0)
Foreign exchange gains	2.2
At 31 December 2020	2.3
Purchases	**1.3**
Total gains recognised in the income statement	**4.4**
Foreign exchange losses	**(1.8)**
At 31 December 2021	**6.2**

Sensitivity of level three derivatives measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of level three derivatives to changes in key assumptions.

	31 December 2021		31 December 2020	
	Carrying amount $m	**Effect of possible alternative assumptions (+/-) $m**	Carrying amount $m	Effect of possible alternative assumptions (+/-) $m
Options	**0.5**	**0.1**	0.6	0.1
Industry loss warranty contracts	**0.1**	**–**	0.2	0.1
Sutton forward contract	**0.7**	**0.1**	1.6	0.4
Equity warrants	**4.9**	**0.5**	–	–

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

26 Insurance and other receivables

This Note sets out the various categories of amounts which are owed to the Group.

	31 December 2021 $m	31 December 2020 $m
Arising out of direct insurance operations	**735.8**	611.4
Arising out of reinsurance operations	**596.1**	484.9
Receivables from contracts with customers	**15.5**	56.5
Prepayments	**11.9**	8.8
Accrued income	**11.6**	13.9
Outstanding settlements on investments	**10.0**	24.3
Other assets	**81.2**	43.6
Other debtors	**152.7**	58.6
Finance lease receivable	**0.5**	–
Total	**1,615.3**	1,302.0

Other assets relate to shares purchased to settle share-based payment awards. For further information, refer to Note 36.

The finance lease receivable relates to the sublease agreement entered into by Brit Insurance Services USA Inc. For further information, refer to Note 27.

With the exception of the finance lease receivable, the carrying amounts disclosed above reasonably approximate fair values as all amounts are receivable within one year of the date of the statement of financial position. Of the total finance lease receivable recognised above, $0.2m is receivable within one year (2020: nil).

27 Leases where the Group acts as a lessor

This Note analyses the amounts recorded in respect of leases where the Group acts as a lessor. Additional commentary provides qualitative and quantitative information on such activities. Further analysis reconciles undiscounted annual lease payments to the finance lease receivable balance at year-end.

During 2021, the Group entered into a sublease in respect of an office building that it leased in 2017. The sublease is for the whole of the remaining term of the head lease and, consequently, it has been classified as a finance lease by the Group.

The carrying amount of net investment in the lease has increased by $0.5m as a result of the initial recognition, and subsequent recognition of finance income, as well as cash received.

The following amounts have been recognised in the consolidated income statement from lease contracts in which the Group acts as a lessor:

	31 December 2021 $m
Finance lease	
Finance income on the net investment in the lease	–
Loss on initial recognition	**(0.1)**

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

	31 December 2021 $m
Less than one year	**0.2**
One to two years	**0.2**
Two to three years	**0.1**
Total undiscounted lease payments receivable	**0.5**
Unearned finance income	–
Net investment in the lease	**0.5**

28 Cash and cash equivalents

This Note analyses the amounts of cash and cash equivalents. Cash equivalents are investment instruments with less than 90 days left to maturity when purchased by the Group. Additional analysis which explains where cash and cash equivalents are held and why they are being held is also provided.

	31 December 2021 $m	31 December 2020 $m
Cash at bank and on deposit	**491.3**	423.0
Cash equivalents	**1,019.0**	352.7
Total	**1,510.3**	775.7

The carrying amounts disclosed above, reasonably approximate fair values.

28 Cash and cash equivalents (continued)

The source of these amounts can be further analysed as follows:

Classification	Definition	31 December 2021 $m	31 December 2020 $m
Cash within segregated fund mandates	Short-term investment funds, money market funds, treasury bills or cash held within segregated mandates.	**808.4**	172.4
Lloyd's trust funds	Cash within the Lloyd's Overseas Deposits trust funds held to meet regulatory requirements.	**72.3**	59.4
Self-managed cash	Highly liquid instruments held to meet ongoing working capital requirements.	**629.6**	543.9
Total		**1,510.3**	775.7

29 Assets and liabilities of disposal group classified as held for sale

In December 2020, management committed to a plan to sell Commonwealth Insurance Company of America, a subsidiary of the Group. Accordingly, that business was presented as a disposal group held for sale. The sale was completed on 5 February 2021, and a profit of $3.7m was recognised in the consolidated statement of comprehensive income.

As at 31 December 2021, the disposal group was no longer held on the statement of financial position. As at 31 December 2020 the disposal group comprised of the following:

	31 December 2020 $m
Assets classified as held for sale:	
Regulatory licenses	7.5
Reinsurance contracts	1.4
Financial investments	7.6
Cash equivalents	1.3
Total assets of disposal group held for sale	17.8
Liabilities directly associated with assets classified as held for sale:	
Insurance contracts	1.6
Insurance and other payables	0.2
Total liability of disposal group held for sale	1.8

30 Borrowings

This Note describes the main sources of borrowing available to the Group and the amounts currently borrowed from each of those sources.

				31 December 2021		31 December 2020	
	Maturity	Call	Effective interest rate	**Amortised cost $m**	**Fair value $m**	Amortised cost $m	Fair value $m
Non-current							
Subordinated debt	2030	–	3.7%	**182.9**	**174.5**	184.5	170.4
Revolving credit facility	2025	–	Daily non-cumulative RFR rate +1.45%	**45.0**	**45.0**	130.0	130.0
				227.9	**219.5**	314.5	300.4

As at 31 December 2021 and 31 December 2020, the fair value of the subordinated debt was determined by reference to trading market values on recognised exchanges and was therefore categorised as a level one measurement in the fair value hierarchy. For further information relating to the fair value hierarchy, refer to Note 24.

Subordinated debt

The Group did not take up the option to call the subordinated debt on 9 December 2020. Following this date, the interest rate reset to 3.6757%, being the higher of:

i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; and

ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

Revolving credit facility

The Group has a $450.0m (2020: $450.0m) revolving credit facility which expires on 31 December 2025.

At 31 December 2021, a $130.0m (2020: $130.0m) uncollateralised letter of credit had been utilised. In addition, there was a cash drawing of $45.0m (2020: $130.0m).

Syndicate 2987 entered into an agreement for a $150.0m uncollateralised letter of credit facility on 22 November 2021. As at 31 December 2021, this $150m facility was fully utilised.

As at 31 December 2021, there was a uncollateralised $130.0m letter of credit facility to support the business written in Syndicate 1618.

31 Other financial liabilities

This Note sets out the amount of financial liabilities owing to external investors in respect of structured entities consolidated by the Group.

The statement of financial position of the Group includes financial liabilities arising from third-party investments in structured entities that are consolidated by the Group.

These financial liabilities have been designated as held at fair value through profit or loss. As at 31 December 2021, the fair value of the investments by independent third parties was $95.8m (2020: $62.0m), of which $95.8m (2020: $62.0m) related to other financial liabilities owing to investors in collateralised reinsurance arrangements.

The fair value of these liabilities was determined by reference to the underlying net assets of the vehicles and was therefore categorised as level three in the fair value hierarchy. Further information relating to the Group's approach to fair value measurement is available in Note 24.

32 Insurance and other payables

This Note sets out the various categories of amounts which are owed by the Group.

	31 December 2021 $m	31 December 2020 $m
Arising out of direct insurance operations	**51.5**	68.4
Arising out of reinsurance operations	**876.8**	404.6
Other taxes and social security costs	**3.4**	3.0
Accruals and deferred income	**88.5**	58.1
Lease liabilities	**53.2**	54.6
Other creditors	**110.7**	32.0
Total	**1,184.1**	620.7

With the exception of lease liabilities, the carrying amounts disclosed above reasonably approximate fair values as all amounts are payable within one year of the date of the statement of financial position.

Of the total lease liabilities recognised above, $6.8m is payable within one year (2020: $6.0m). A maturity analysis of the contractual undiscounted cash flows is shown below:

	31 December 2021 $m	31 December 2020 $m
Maturity analysis for lease liabilities – contractual undiscounted cash flows		
Less than one year	**8.2**	7.5
One to five years	**29.8**	27.1
More than five years	**21.4**	27.6
Total undiscounted lease liabilities	**59.4**	62.2
Total lease liabilities included in the statement of financial position	**53.2**	54.6
Current	**6.8**	6.0
Non-current	**46.4**	48.6

33 Called up share capital

This Note sets out the number of shares the Company has in issue and their nominal value.

	31 December 2021 $m	31 December 2020 $m	**31 December 2021 1p each Number**	31 December 2020 1p each Number
Ordinary shares:				
Allotted, issued and fully paid	**10.0**	8.6	**669,502,094**	568,837,653

	Share premium $m	Share capital $m	Share capital Number
At 1 January 2020	505.5	7.0	446,977,185
Issue of class B shares	522.4	1.6	121,860,468
At 31 December 2020	1,027.9	8.6	568,837,653
At 1 January 2021	**1,027.9**	**8.6**	**568,837,653**
Issue of class A shares	373.7	1.3	92,364,532
Issue of class B shares	31.0	0.1	8,299,909
At 31 December 2021	**1,432.6**	**10.0**	**669,502,094**

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 Brit Group.

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.

Following the issuances during the year, Fairfax owns 86.20% of Brit Limited while the remaining 13.80% is owned by OMERS.

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

- On 07 April 2020, 46,511,628 shares were issued for $200.0m, resulting in $199.4m being recorded in the share premium accounts.
- On 24 August 2020, 19,767,442 shares were issued for $85.0m, resulting in $84.7m being recorded in the share premium accounts.
- On 21 September 2020, 3,488,373 shares were issued for $15.0m, resulting in $15.0m being recorded in the share premium accounts.
- On 20 November 2020, 31,395,349 shares were issued for $135.0m, resulting in $134.6m being recorded in the share premium accounts.
- On 23 November 2020, 3,720,931 shares were issued for $16.0m, resulting in $16.0m being recorded in the share premium accounts.
- On 23 December 2020, 16,976,745 share were issued for $73.0m, resulting in $72.8m being recorded in the share premium accounts.

Additionally, on 28 August 2020, Fairfax purchased all 48,000,000 Class A shares from OMERS and increased its percentage shareholding to 100.00%. Simultaneously, these shares were converted to Class B shares.

34 Dividends

This Note gives details of the amounts paid to shareholders during 2021 and 2020 by way of dividends.

	2021 $	2020 $	2021 $m	2020 $m
Dividend paid in respect of prior year	–	0.43	–	20.6
Dividend paid	**0.66**	–	**375.0**	–
			375.0	20.6

A $375.0m dividend was paid to the class B shareholders on 7 September 2021 in accordance with the Brit Limited shareholders' agreement an amount equal to $0.66 per share. No dividend was paid to the class B shareholders in respect of the year-ended 31 December 2020 (2020: $20.6m/$0.43 per share).

35 Cash flows provided by operating activities

The tables below show how the profit for the year translates into cash flows generated from operating activities and provide a reconciliation of the liabilities arising from financing activities.

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Profit/(loss) on ordinary activities before tax	**227.3**	(230.5)
Adjustments for non-cash movements:		
Realised and unrealised (gains)/losses on investments	**(123.0)**	4.1
Realised and unrealised losses on derivatives	**15.7**	1.1
Amortisation of intangible assets	**11.7**	10.7
Depreciation and impairment of property, plant and equipment	**10.1**	8.9
Foreign exchange (losses)/gains on cash and cash equivalents	**1.1**	(3.3)
Share of gains after tax of associated undertakings	**(1.7)**	(2.0)
Profit on disposal of subsidiaries	**(19.8)**	–
Profit on disposal of associated undertaking	**(6.1)**	–
Unrealised (gains)/losses on shares held for share-based payments	**(21.7)**	15.6
Charges in respect of share-based payment schemes	**17.3**	3.0
Interest income	**(47.4)**	(66.9)
Dividend income	**(11.0)**	(6.3)
Finance costs on borrowing	**18.3**	23.6
Changes in working capital:		
Deferred acquisition costs	**(74.5)**	(3.7)
Insurance and other receivables excluding accrued income	**(279.7)**	(77.5)
Insurance and reinsurance contracts	**192.8**	410.9
Financial investments	**157.3**	(423.2)
Derivative contracts	**(12.6)**	(5.3)
Other financial liabilities	**33.8**	(13.5)
Insurance and other payables	**599.5**	(55.7)
Employee benefits	**(65.0)**	(3.1)
Provisions	**0.1**	(1.2)
Cash flows provided by/(used in) operating activities	**622.5**	(414.3)

35 Cash flows provided by operating activities (continued)

Reconciliation of liabilities arising from financing activities

31 December 2021	Year ended 31 December 2020 $m	Cash flows $m	Non-cash changes: Foreign exchange movement $m	Non-cash changes: Other changes $m	Year ended 31 December 2021 $m
Long-term borrowings					
Subordinated debt	**184.6**	**(6.8)**	**(1.7)**	**6.8**	**182.9**
Short-term borrowings					
Revolving credit facility	**130.0**	**(87.8)**	**–**	**2.8**	**45.0**
Total liabilities from financing activities	**314.6**	**(94.6)**	**(1.7)**	**9.6**	**227.9**

31 December 2021	Year ended 31 December 2019 $m	Cash flows $m	Non-cash changes: Foreign exchange movement $m	Non-cash changes: Other changes $m	Year ended 31 December 2020 $m
Long-term borrowings					
Subordinated debt	176.2	(11.5)	5.8	14.1	184.6
Short-term borrowings					
Revolving credit facility	140.0	(12.5)	–	2.5	130.0
Total liabilities from financing activities	316.2	(24.0)	5.8	16.6	314.6

36 Share-based payments

The Group rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments and the charge recognised in the consolidated income statement in respect of these schemes.

The compensation cost recognised in the income statement under IFRS 2 'Share-based Payments' for the Group's share-based payments arrangements are shown below:

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Equity-settled plans		
Employee Share Ownership Plan	**1.0**	1.3
Cash-settled plans		
Long Term Incentive Plan	**16.3**	1.7
Total	**17.3**	3.0

The total liability in respect of cash-settled plans at 31 December 2021 was $23.3m (2020: $10.3m). In regard to the Long Term Incentive Plan, no gain or loss (2020: nil) is included in the consolidated statement of changes in equity in respect of equity settled plans. $3.1m (2020: $1.6m) is included within other creditors in respect of national insurance contributions on the share schemes. A further $1.0m (2020: $1.3m) of charges relating to the Employee Share Ownership Plan are equity-settled in nature but physically-settled in cash and so were not recorded in the consolidated statement of changes in equity.

(a) Long Term Incentive Plan (Performance Share Plan replacement)

On the Fairfax acquisition of Brit Limited, the 65% of PSP awards that did not immediately vest were converted by Fairfax into awards under this scheme. The cost of the awards was recorded over the vesting period. The options vested in November 2018 and there are a further seven years to exercise the options.

Reconciliation of movement in the number of awards

	Year ended 31 December 2021 Number of awards	Year ended 31 December 2020 Number of awards
Outstanding at 1 January	**741**	865
Exercised	**(73)**	(124)
Outstanding at 31 December	**668**	741

In order to settle share-based payment awards, in 2015 the Group purchased $10.7m of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax. Of the purchase, $3.9m related to this scheme and was recorded within equity so as to offset the share-based payment charges recorded in equity on exercise of the awards. $0.6m worth of options were forfeited prior to the vesting of the scheme and the shares associated with those forfeited awards were awarded as part of the cash-settled long term incentive plan. As such, this amount has been reclassified from equity to other assets, resulting in a $0.6m increase in the statement of changes in equity in 2021. There were no additional shares purchased for this scheme in 2020 and 2021. The remaining 668 shares were exercisable at the year end.

(b) Long Term Incentive Plan

The Company awards selected employees options to acquire shares in Fairfax at a nil exercise price. Subject to continued service, the options vest between two and ten years after the grant date and there are a further five years to exercise the options.

The fair value of the awards are determined by the market price of the underlying shares at the valuation date. The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 10% per annum (2020: 10%) prior to vesting, with subsequent adjustments to reflect actual experience.

Reconciliation of movement in the number of awards

	Year ended 31 December 2021 Number of awards	Year ended 1 December 2020 Number of awards
Outstanding at 1 January	**118,626**	114,451
Granted	**44,967**	19,986
Exercised	**(3,825)**	(6,977)
Forfeited	**(6,531)**	(8,834)
Outstanding at 31 December	**153,237**	118,626

The total intrinsic value at the end of the period of liabilities for awards that have been vested, but not exercised, amounted to $3.8m (2020: $1.8m). The weighted average share price at the date of exercise for share options exercised during the period was $430.61 (2020: $333.70). The weighted average fair value at date of grant for awards granted during 2021 was $496.50 (2020: $340.54).

In order to settle share-based payment awards, in 2021 the Group purchased $16.9m (2020: $3.0m) of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax. This has been recorded within Other Assets so as to offset the share-based payment recorded as a liability within Other Creditors that accrues over the vesting period of the awards.

c) Employee Share Ownership Plan (ESOP)

Under the terms of the ESOP which was established in 2015, eligible employees are given the election to purchase common shares in Fairfax in an amount up to 10% of their annual base salary. The Company purchases, on the employee's behalf, a number of Fairfax's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves certain performance targets, additional shares are purchased by the Company for the employee's benefit, to an amount equal in value to 20% of the employee's contribution during that year. In respect of both shares purchased by employees and matched by the Company, during the year ended 31 December 2021, the Company purchased a total of 7,997 common shares in Fairfax (2020: 11,749) at an average price of $440.14 (2020: $329.63) in respect of this plan.

37 Consolidated entities

This Note sets out all the entities which are members of the Brit Limited Group and whose results and financial positions are consolidated to produce the Group result and financial position.

All subsidiaries of the Company are 100% owned apart from the Group's special purpose vehicles and Riverstone Corporate Capital 4 Limited (RCC4). For these vehicles, funding is provided through preference share capital or other unitised issuances. The Group also holds 42% and 100% investments in The Diversified Fund and the Specialty Insurance Fund respectively, which are segregated accounts within Sussex Capital Limited. The Group has consolidated all segregated accounts of Sussex Re Limited and protected cells Sussex Capital UK PCC Limited apart from those where the investment therein has been made directly by investors that are external to the Brit Group.

RCC4 is a Lloyd's corporate member owned by the RiverStone Group during the reporting period and acquired by Brit Limited Group on 1 January 2022. Its main activity from 1 January 2021 is to act as the sole corporate member of Ki Syndicate 1618, the results of which will generate the majority of the economic returns of RCC4 in 2021 and thereafter. These returns have been fully reinsured into segregated accounts of Sussex Re Limited, in which Ki Financial Limited (KFL), a member of the Brit Group, is the sole investor. Consequently, KFL is the principal beneficiary of the economics of Ki Syndicate 1618, RCC4 and the Sussex segregated accounts through into which the results of the syndicate are passed to KFL. Accordingly, from 1 January 2021 under the provisions of IFRS10, Brit is deemed to control RCC4 and has therefore consolidated it from that date. Any residual result in RCC4 is attributable to non-controlling interests.

As mentioned in Note 2.2, 60.70% of the 2020 year of account result and assets of Syndicate 2988 is included in these consolidated financial statements. 57.67% of the 2021 year of account result and assets of Syndicate 2988 is included in these consolidated financial statements.

On 23 September 2020 and 24 November 2020, Brit Limited invested $15m and $16m respectively into Ki Financial Limited. On 7 July 2021 and 7 December 2021, Brit Limited invested $7m and $24m respectively into Ki Financial Limited.

As at 31 December 2021, the Group holds 20.0% of the share capital of Ki Financial Limited and 51.0% of the voting rights. The entity is consolidated in full by the Group.

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.

On 5 February 2021, the Group sold its entire investment in Commonwealth Insurance Company of America. At this point, there was a loss of control and, as such, it has been deconsolidated.

On 28 June 2021, the Group sold its entire investment in Scion Underwriting Services Inc. At this point, there was a loss of control and, as such, it has been deconsolidated.

The subsidiaries of the Company at 31 December 2021, together with their main function, are listed below by country of incorporation. The registered address and principal place of business of each entity is The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB unless otherwise stated.

Subsidiary	Principal activity	Registered address and principal place of business
United Kingdom		
Brit Insurance Holdings Limited	Intermediate holding company	The Leadenhall Building
Brit Syndicates Limited	Lloyd's managing agent	The Leadenhall Building
Brit UW Limited	Lloyd's corporate member	The Leadenhall Building
Brit Insurance Services Limited	Service company	The Leadenhall Building
Brit Investment Holdings Limited	Service company	The Leadenhall Building
Brit Group Services Limited	Group services company	The Leadenhall Building
Brit Group Finance Limited	Group services company	The Leadenhall Building
BGS Services (Bermuda) Limited	Service company	The Leadenhall Building
Brit Pension Trustee Limited	Service company (Dormant)	The Leadenhall Building
Brit Corporate Services Limited	Service company (Dormant)	The Leadenhall Building

Subsidiary	Principal activity	Registered address and principal place of business
Brit Corporate Secretaries Limited	Service company (Dormant)	The Leadenhall Building
Sussex Capital UK PCC Limited	Special purpose vehicle	The Leadenhall Building
Nameco (No. 1341) Limited	Lloyd's corporate member	5th Floor, 40 Gracechurch Street, London, EC3V 0BT
Ambridge Europe Limited	Insurance intermediary	c/o PKF Littlejohn 15 Westferry Circus, Canary Wharf, London, E14 4HD
Ambridge European Holdings Limited	Service company	c/o PKF Littlejohn 15 Westferry Circus, Canary Wharf, London, E14 4HD
Riverstone Corporate Capital 4 Limited	Lloyd's corporate member	161-163 Preston Road, Brighton, East Sussex, United Kingdom, BN1 6AU
Ki Financial Limited	Intermediate holding company	The Leadenhall Building
Ki Capital Solutions Limited	Service company (Dormant)	The Leadenhall Building
Ki Technology Limited	Service company (Dormant)	The Leadenhall Building
Ki Member Limited	Service company (Dormant)	The Leadenhall Building
Ki Group Services Limited	Service company (Dormant)	The Leadenhall Building
Otto Technology Limited	Service company (Dormant)	The Leadenhall Building
Brit Syndicates Trustee Limited	Lloyd's trustee (Dormant)	The Leadenhall Building
United States of America		
Brit Insurance Services USA Inc.	Service company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Brit Insurance USA Holdings Inc.	Intermediate holding company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Ambridge Partners LLC	Insurance intermediary	251 Little Falls Drive, Wilmington, DE 19808
Ambridge Due Diligence Services LLC	Service company (Dormant)	251 Little Falls Drive, Wilmington, DE 19808
Ambridge USA Service Company Inc.	Service company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Bermuda		
Sussex Capital Management Limited	Service company	Ground Floor Chesney House, The Waterfront, 96 Pitts Bay Road, Pembroke, HM 08
Sussex Capital Limited	Special purpose vehicle	Wessex House, 3rd Floor, 45 Reid Street, Hamilton HM 12
Sussex Re Limited	Special purpose vehicle	Wessex House, 3rd Floor, 45 Reid Street, Hamilton HM 12
Brit Reinsurance (Bermuda) Limited	Insurance company	Ground Floor Chesney House, The Waterfront, 96 Pitts Bay Road, Pembroke, HM 08
Singapore		
Brit Global Specialty Singapore Pte. Ltd.	Service company	138 Market St., #04-03 CapitaGreen, 048946
The Netherlands		
Brit Insurance Holdings B.V.	Former holding company	The Leadenhall Building
Germany		
Ambridge Europe GmbH & Co. KG	Insurance intermediary	Grüneburgweg 58 – 62, 60322 Frankfurt am Main, Germany
Ambridge German Holdings GmbH	Service company	Grüneburgweg 58 – 62, 60322 Frankfurt am Main, Germany
South Africa		
Camargue Underwriting Managers (Proprietary) Limited	Insurance intermediary	Camargue House, 33 Glenhove Road, Melrose Estate, 2196
Synergy XOL (Pty) Ltd.	Service company	Camargue House, 33 Glenhove Road, Melrose Estate, 2196
Phoenix Underwriting Managers (Pty) Ltd.	Service company (Dormant)	Camargue House, 33 Glenhove Road, Melrose Estate, 2196

38 Related party transactions and Ultimate Parent Company

The Group has a number of related parties which includes its principal investors and its Directors. Sometimes it transacts business with these related parties. This Note sets out those transactions.

The Group carries out a number of transactions with related parties which include, paying management fees, carrying out insurance and reinsurance activities with affiliates of the ultimate parent company, Fairfax Financial Holdings Limited, and trading with its associates. All the transactions with related parties are undertaken on an arm's-length basis.

(a) Ultimate Parent Company

The ultimate parent company and controlling entity, and the largest group of which the Group is a member, is Fairfax Financial Holdings Limited (Fairfax) which is registered in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements for Fairfax are publicly available and can be obtained from the Corporate Secretary, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.

(b) Fairfax Financial Holdings Limited

In June 2015, Hamblin Watsa Investment Counsel Limited (HWIC), an affiliate of Fairfax, was appointed as an investment manager to a number of Group companies. During the year ended 31 December 2021, the Group incurred and paid investment management fees to HWIC of $11.9m (2020: $11.0m).

The Group has historically entered into various reinsurance arrangements with affiliates of Fairfax.

In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of Fairfax were as follows:

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Gross premiums written	**16.4**	16.8
Less premiums ceded to reinsurers	**(15.9)**	(17.8)
Premiums written, net of reinsurance	**0.5**	(1.0)
Gross amount of change in provision for unearned premiums	**(1.8)**	3.9
Reinsurers' share of change in provision for unearned premiums	**1.2**	(2.4)
Net change in provision for unearned premiums	**(0.6)**	1.5
Earned premiums, net of reinsurance	**(0.1)**	0.5
Gross claims paid	**(13.5)**	(7.0)
Reinsurers' share of claims paid	**6.6**	19.7
Claims paid, net of reinsurance	**(6.9)**	12.7
Gross change in the provision for claims	**8.1**	(5.7)
Reinsurers' share of change in the provision for claims	**3.5**	(4.8)
Net change in the provision for claims	**11.6**	(10.5)
Commission income	**0.8**	0.8
Commission expense	**(0.9)**	(3.3)

The amounts included in the statement of financial position outstanding with Fairfax and its affiliates as at 31 December 2021 were as follows:

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Debtors arising out of direct insurance and reinsurance operations:		
Insurance premium receivable	**6.3**	7.9
Recoverable from reinsurers	**20.7**	17.2
Creditors arising out of direct insurance and reinsurance operations:		
Payable to reinsurers	**(5.3)**	(4.8)
Unpaid claims liabilities	**(41.1)**	(49.3)
Deferred acquisition costs	**0.8**	1.1
Gross unearned premiums	**(7.6)**	(5.7)
Unearned premium recoverable from reinsurers	**5.0**	3.8

(c) Business combination

Camargue Underwriting Managers Proprietary Limited

On 4 October 2021, the Brit Group exercised a call option to acquire the remaining 50% of the issued shares of Camargue Underwriting Managers Proprietary Limited (Camargue), following the initial acquisition of 50% in August 2016. The acquisition was completed on 4 October 2021 for a total purchase consideration of $12.6m – the consideration only consisted of cash. Following the transaction, the Brit Group has 100% of the voting equity instruments of Camargue, a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit.

The principal reason for this acquisition was to build on Brit's strategy of selective international expansion into niche specialty businesses that offer well-established distribution networks underpinned by underwriting expertise.

Prior to 4 October, Brit's investment in Camargue was recorded as an investment in associated undertaking and valued under equity method accounting requirements. As a result, the Brit Group's share of pre-acquisition year-to-date profits of $0.5m have been reported within the 'Share of net profit of associates' line of the Consolidated Income Statement.

For the period of the year where Camargue was an associate of the Group, the amounts in the income statement relating to trading with Camargue for the year ended 31 December 2021 included commission for introducing insurance business of $2.1m (2020: $2.9m).

In addition, at the acquisition date the investment in associate was derecognised from the balance sheet of the Group and remeasured at fair value for the purposes of acquisition accounting under IFRS 3 and subsequent consolidation of Camargue. The acquisition-date fair value of the equity interest in Camargue immediately before the acquisition date amounted to $12.6m. This process resulted in the recognition of a gain of $6.1m being recorded in the Income Statement ('Gain on business combination') for the year ending 31 December 2021. Accordingly, Brit's investment in associated undertakings decreased.

38 Related party transactions and Ultimate Parent Company (continued)

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	As at 4 October 2021 $m
Assets	
Acquired intangible assets	**8.2**
Property, plant and equipment	**1.1**
Deferred tax asset	**0.5**
Financial investments	**0.1**
Cash and cash equivalents	**6.2**
Trade receivables	**1.0**
Other receivables	**0.1**
	17.2
Liabilities	
Deferred tax liability	**2.3**
Trade payables	**3.2**
Other payables	**2.9**
	8.4
Net identifiable assets acquired	**8.8**
Add: goodwill	**16.4**
Net assets acquired	**25.2**

Acquired intangible assets and goodwill

On acquisition, the Group recognised $0.9m of trade names and $7.3m of distribution channels. The Group also recognised $16.4m of goodwill. The quantum of goodwill can be explained by the anticipated forecast revenue growth from the business securing new customers as well as new written premium, and unrecognised intangible assets – namely, the industry experience and know-how of the assembled workforce.

The goodwill recognised will not be deductible for tax purposes.

Trade receivables

The fair value is determined through the contractual amount receivable less any amounts uncollectible. On acquisition, Camargue held trade receivables with a book and fair value of $1.1m, representing contractual receivables of $1.1m. The Brit Group will make every effort to collect all contractual receivables, and it consider it unlikely that any of these amounts will be uncollectible.

Trade payables

The fair value is based on the contractual amount required to be settled with insurers in respect of business underwritten on their behalf, less any commissions due thereon that are deductible at source.

Revenue and profit contribution

The acquired business contributed $1.8m to revenue and $1.3m to profit for the period from 4 October 2021 to 31 December 2021. If the acquisition had occurred on 1 January 2021, the Brit Group revenue would have been $2,015.2m and consolidated profit for the period would have been $237.5m.

Acquisition costs

Acquisition costs of $31.5k arose as a result of the transaction. These have been recognised as part of 'Other operating expenses' in the Income Statement.

(d) Associated undertakings

Sutton Special Risk Inc

On 2 January 2019, Brit Insurance Holding Limited, acquired 49% of the issued shares of Sutton for a total purchase consideration of CAD$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian MGU, specialising in Accident and Health business.

Trading with Sutton is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Sutton for the year ended 31 December 2021 included commission for introducing insurance business of $4.2m (2020: $2.6m).

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Sutton as at 31 December 2021 and 31 December 2020 were not material.

(e) Crum and Forster commission agreement

On 1 May 2018, Brit Insurance Services USA, Inc. (BISI) entered into a binding authority agreement with Crum and Forster Specialty (C&F), another subsidiary of the Fairfax group. C&F has authorized BISI to bind certain commercial insurance contracts on their behalf. BISI earns a commission of up to 24% for this business including external broker commission. The agreement will continue in perpetuity until BISI or C&F provide written notice of cancellation. During 2021, C&F paid BISI $5.4k (2020: $5.8k) in respect of commission. $45.2k was outstanding at the year-end (2020: $140.8k).

(f) Bryte Insurance Limited agreement

Prior to the acquisition of Camargue Underwriting Managers Proprietary Limited (Camargue) on 4 October 2021, the entity had already entered into a agreement with Bryte Insurance Limited (Bryte), another subsidiary of the Fairfax group. Camargue acts as an underwriting managing agent for Bryte, administering insurance policies on their behalf and providing risk management services over the lifetime of those policies.

Following the acquisition of Camargue on 4 October 2021, the amounts in the income statement related to trading with Bryte were $0.2m in respect of administration fees and risk management fees. $0.4m was outstanding at the year-end (2020: $nil).

(g) Key management compensation

The amount of the emoluments granted in respect of the financial year to the members of the administrative, managerial and supervisory bodies by reason of their responsibilities, and any commitments arising or entered into in respect of retirement pension for former members of those bodies, are broken down as follows:

	Year ended 31 December 2021 $m	Year ended 31 December 2020 $m
Salaries and other short-term employee benefits	**7.9**	8.6
Post-employment benefits	**0.9**	0.8
Share-based payments	**11.0**	1.6
Termination benefits	**–**	0.1
Total compensation	**19.8**	11.1

For the purposes of IAS 24, 'Related Party Disclosures', key managers are defined as the Board of Directors and members of the Executive Committee which is the primary vehicle for implementing Board decisions in respect of UK-managed operations.

As at 31 December 2021, $0.4m (2020: $0.4m) was recorded in the statement of financial position in respect of unsecured loans to key management personnel. These loans were recognised during 2020, are expected to be settled in cash, carry an annual interest charge of 2.25%, and have no fixed maturity date.

39 Guarantees and contingent liabilities

This Note explains guarantees issued by Group companies and any contingent liabilities they may be exposed to.

(a) Lloyd's

Assets have been pledged, as Funds at Lloyd's, by way of deposits and fixed and floating charges for companies within the Group that participate on Lloyd's syndicates, including Brit UW Limited, the principal corporate member of the Group. As at 31 December 2021 the Funds at Lloyd's requirement amounted to $1,074.4m (2020: $1,598.8m) in respect of Brit UW Limited, and $411.9m (2020: $152.3m) in respect of other companies within the Group.

(b) Credit facilities

The Group has a $450.0m (2020: $450.0m) revolving credit facility which expires on 31 December 2025. At 31 December 2021, a $130.0m (2020: $130.0m) uncollateralised letter of credit had been utilised in respect of this facility. In addition, there was a cash drawing of $45.0m (2020: $130.0m).

Syndicate 2987 entered into an agreement for a $150.0m letter of credit facility on 22 November 2021. This expires on 31 December 2022. As at 31 December 2021, this $150m facility was fully utilised.

As at 31 December 2021, there was a uncollateralised $130.0m (2020: $50.0m) letter of credit facility, which expires on 31 December 2026, to support the business written in Syndicate 1618.

(c) Taxation

The Group operates in a wide variety of jurisdictions around the world through its Lloyd's syndicate and uncertainties therefore exist with respect to the interpretation of complex tax laws and practices of those territories. The Group establishes provisions for taxes other than current and deferred income tax if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. This assessment is made based upon various factors which are continually evaluated.

Income taxes are provided for as set out in accounting policy [Note 2.5.11].

40 Events occurring after the reporting date

This Note sets out how events occurring after the reporting date relate to the financial position and performance of the Group in the reporting period.

On 1 January 2022, the Group acquired 100% of the issued shares in RiverStone Corporate Capital 4 Limited ('RCC4'). RCC4 is a Lloyd's corporate member, with a principal activity of providing capital to Ki Syndicate 1618. As set out in Note 37, the Brit Group is the principal beneficiary of the economics of Ki Syndicate 1618 and RCC4 and, as such, RCC4 was consolidated by the Brit Group in 2021, prior to the formal acquisition of its issued shares. The purchase consideration was £1.

contents

Introduction to the Parent Company Financial Statements

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

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

Index to the Parent Company Financial Statements

statement of financial position

At 31 December 2021

	Note	31 December 2021 $m	31 December 2020 $m
Fixed assets			
Investments:			
Shares in Group undertakings	3	**1,114.5**	1,081.5
Loans to Group undertakings	4	**139.6**	140.9
		1,254.1	1,222.4
Current assets			
Debtors: Amounts falling due within one year	5	**580.6**	555.6
Cash at bank and in hand		**0.2**	0.1
		580.8	555.7
Current liabilities			
Creditors: Amounts falling due within one year	6	**(0.7)**	(0.9)
Net current assets		**580.1**	554.8
Total assets less current liabilities		**1,834.2**	1,777.2
Creditors: Amounts falling due after more than one year	7	**(182.9)**	(184.5)
Net assets		**1,651.3**	1,592.7
Capital and reserves			
Called up share capital	8	**10.0**	8.6
Share premium		**1,432.6**	1,027.9
Capital redemption reserve		**1.0**	1.0
Capital contribution reserve		**28.5**	–
Retained earnings		**179.2**	555.2
Total equity		**1,651.3**	1,592.7

No individual income statement is presented for the Company, as permitted by Section 408 of the Act. The comprehensive income dealt with in the financial statements of the parent company was a $1.0m loss (2020: $3.3m gain).

The accompanying Notes on pages 174 to 179 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 February 2022 and were signed on its behalf by:

Martin Thompson
Interim Group Chief Executive Officer

Gavin Wilkinson
Group Chief Financial Officer

statement of changes in equity

For the year ended 31 December 2021

	Note	Called up Share capital $m	Share premium $m	Capital redemption reserve $m	Capital contribution reserve $m	Retained earnings $m	Total equity $m
1 January 2021		**8.6**	**1,027.9**	**1.0**	**–**	**555.2**	**1,592.7**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(1.0)**	**(1.0)**
Issuance of share capital	8	**1.4**	**404.7**	**–**	**–**	**–**	**406.1**
Dividend	11	**–**	**–**	**–**	**–**	**(375.0)**	**(375.0)**
Contribution from parent in relation to the acquisition of the Riverstone pension plan		**–**	**–**	**–**	**28.5**	**–**	**28.5**
At 31 December 2021		**10.0**	**1,432.6**	**1.0**	**28.5**	**179.2**	**1,651.3**

For the year ended 31 December 2020

	Note	Called up Share capital $m	Share premium $m	Capital redemption reserve $m	Retained earnings $m	Total equity $m
1 January 2020		7.0	505.5	1.0	572.5	1,086.0
Total comprehensive income for the year		–	–	–	3.3	3.3
Issuance of share capital	8	1.6	522.4	–	–	524.0
Dividend	11	–	–	–	(20.6)	(20.6)
At 31 December 2020		8.6	1,027.9	1.0	555.2	1,592.7

The accompanying Notes on pages 174 to 179 are an integral part of these financial statements.

notes to the financial statements

1 Accounting policies and basis of preparation

This Note provides details of the basis of preparation and accounting policies applied in producing these parent company financial statements.

1.1 Basis of preparation

The Company financial statements present the information about the Company as a separate entity. The Company is incorporated and registered in England and Wales with registration number 08821629. The registered office of the company at the date of this report is The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

The Company has prepared its financial statements in accordance with Financial Reporting Standard 'FRS 102', the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland and provisions of Section 396 of the Companies Act 2006. The Company has applied accounting policies consistently to all the years presented, other than where new policies have been adopted.

The financial statements have been compiled on a going concern basis and prepared on a historical cost basis, except for financial investments and financial liabilities which have been measured initially at fair value. The Company financial statements are presented in US dollars, which is also the functional currency of the Company, and all values are rounded to the nearest $0.1m except where otherwise indicated.

1.2 Accounting policies

(a) Investments

Investments in subsidiary undertakings are stated at cost less provisions for any impairment.

(b) Income from fixed asset investments

Dividend income is recognised when the shareholders' right to receive the payment is established.

(c) Long-term debt

Long-term debt is recognised initially at transaction price which is the fair value. It is subsequently measured at amortised cost using the effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest payable is recognised using the effective interest rate method.

(d) Loans to Group undertakings

Loans to Group undertakings are recognised initially at transaction price which is the fair value, (including transaction costs incurred except in the initial measurement of financial liabilities that are measured at fair value through profit or loss) and subsequently measured at amortised cost using effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest receivable is recognised using the effective interest rate method.

(e) Expenses

All expenses are accounted for on an accruals basis.

(f) Foreign currencies

Items included in the financial statements of the Company are measured using the functional currency which is the primary economic environment in which the entity operates. The functional currency of the Company is US dollars.

Transactions in foreign currencies other than US dollars are converted at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions are converted at the average rates of the exchange for the period. Assets and liabilities in currencies other than Sterling are converted at the rate of exchange ruling at 31 December of each year. Exchange differences arising on conversion are dealt with in the income statement.

(g) Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the statement of financial position date, dividends have been accrued as receivable;
- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax asset/liability shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the Directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

2 Auditor's remuneration

This Note sets out the fees paid in respect of the annual audit performed on the Company.

Audit fees borne by the Company amounted to $15,525 (2020: $15,525).

3 Shares in Group undertakings

This Note explains the direct shareholdings of the Company in other Group entities.

	31 December 2021 $m	31 December 2020 $m
Investment in Brit Insurance Holdings Limited	**1,052.5**	1,050.5
Investment in Ki Financial Limited	**62.0**	31.0
	1,114.5	1,081.5

During 2021, Brit Limited invested a total of $2m into Brit Insurance Holdings Limited (13 September 2021: $0.5m, 18 October 2021: $0.5m, 16 November 2021: $0.5m, and 15 December 2021: $0.5m).

On 7 July 2021 and 7 December 2021, Brit Limited invested $7m and $24m respectively into Ki Financial Limited.

On 23 September 2020 and 24 November 2020, the Company made investments of $15.0m and $16.0m respectively in Ki Financial Limited.

The subsidiaries of the Company as at 31 December 2021, and their principal activities, are disclosed in the Brit Limited consolidated financial statements.

4 Loans to Group undertakings

This Note sets out moneys lent by the Company to other Group companies.

	31 December 2021 $m	31 December 2020 $m
Loans to Group undertakings	**139.6**	140.9

On 8 September 2014, a long-term loan to another Group company was novated to Brit Limited at fair value. The agreement carries interest at an annual interest rate of 7.05%.

5 Debtors: Amounts falling due within one year

This Note sets out moneys owed to the Company that are due before 31 December 2021.

	31 December 2021 $m	31 December 2020 $m
Interest receivable on loans to Group undertakings	**32.1**	22.5
Amounts owed by Group undertakings	**547.7**	532.4
Prepayments	**0.8**	0.7
Total	**580.6**	555.6

'Amounts owed by Group undertakings' are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

6 Creditors: Amounts falling due within one year

This Note sets out moneys owed by the Company that are due before 31 December 2021.

	31 December 2021 $m	31 December 2020 $m
Accruals and deferred income	**0.7**	0.9
Total	**0.7**	0.9

7 Creditors: Amounts falling due after more than one year

This Note sets out moneys owed by the Company that are due after 31 December 2021.

				31 December 2021		31 December 2020	
	Maturity	Call	Effective interest rate	Amortised cost $m	Fair value $m	Amortised cost $m	Fair value $m
Subordinated debt	2030	–	3.7%	**182.9**	**174.5**	184.5	170.4

The fair value of the subordinated debt has been determined by reference to trading market values on recognised exchanges and is categorised as level one in the fair value hierarchy.

The subordinated debt was novated to the Company from another Group company on 8 September 2014 at fair value. The subordinated debt is listed and callable in whole by the Company on 9 December 2020. Following this date, the interest rate reset to 3.6757%, being the higher of:

i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; and

ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

8 Called up share capital

This Note sets out the number of shares in issue and their nominal value.

	31 December 2021 $m	31 December 2020 $m	**31 December 2021 1p each Number**	31 December 2020 1p each Number
Ordinary shares:				
Allotted, issued and fully paid	**10.0**	8.6	**669,502,094**	568,837,653

	Share premium $m	Share capital $m	Share capital Number
At 1 January 2020	505.5	7.0	446,977,185
Issue of class B shares	522.4	1.6	121,860,468
At 31 December 2020	1,027.9	8.6	568,837,653
At 1 January 2021	**1,027.9**	**8.6**	**568,837,653**
Issue of class A shares	373.7	1.3	92,364,532
Issue of class B shares	31.0	0.1	8,299,909
At 31 December 2021	**1,432.6**	**10.0**	**669,502,094**

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 Company.

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 $24.0m. Following this share issuance, $23.9m was recorded in the share premium accounts.

Following the issuances during the year, Fairfax owns 86.20% of Brit Limited while the remaining 13.80% is owned by OMERS.

8 Called up share capital (continued)

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

- On 07 April 2020, 46,511,628 shares were issued for $200.0m, resulting in $199.4m being recorded in the share premium accounts.
- On 24 August 2020, 19,767,442 shares were issued for $85.0m, resulting in $84.7m being recorded in the share premium accounts.
- On 21 September 2020, 3,488,373 shares were issued for $15.0m, resulting in $15.0m being recorded in the share premium accounts.
- On 20 November 2020, 31,395,349 shares were issued for $135.0m, resulting in $134.6m being recorded in the share premium accounts.
- On 23 November 2020, 3,720,931 shares were issued for $16.0m, resulting in $16.0m being recorded in the share premium accounts.
- On 23 December 2020, 16,976,745 share were issued for $73.0m, resulting in $72.8m being recorded in the share premium accounts.

Additionally, on 28 August 2020, Fairfax purchased all 48,000,000 Class A shares from OMERS and increased its percentage shareholding to 100.00%. Simultaneously, these shares were converted to Class B shares

9 Directors' emoluments

This Note gives a breakdown of emoluments paid to Directors both in total and in respect of the highest paid Director.

	31 December 2021 $m	31 December 2020 $m
Aggregate remuneration	**10.5**	4.8
Aggregate contributions to money purchase pension schemes	**0.1**	0.1
Total	**10.6**	4.9
The Directors' remuneration disclosed above includes the following amounts paid to the highest paid Director:		
Aggregate remuneration	**6.2**	2.8

	Number	Number
Number of Directors with benefits accruing under money purchase pension schemes	**1**	1
Number of Directors in respect of whose qualifying services, shares were received or receivable under long-term incentive schemes	**2**	2

Shares were received or receivable by the highest paid Director in respect of qualifying services under a long-term incentive scheme during 2021 and 2020.

10 Guarantees and contingent liabilities

This Note explains guarantees issued by the Company. The Company has no contingent liabilities.

The Company has access to a $450.0m (2020: $450.0m) revolving credit facility which expires on 31 December 2025. Guarantees have been made by Brit Limited and a subsidiary company to the syndicated banks providing the facility.

At 31 December 2021, a $130.0m (2020: $130.0m) uncollateralised letter of credit had been utilised by the Company in respect of this facility. In addition, there was a cash drawing of $45.0m (2020: $130.0m).

11 Dividends

This Note gives details of the amounts paid to shareholders during 2021 and 2020 by way of dividends.

	2021 $	2020 $	2021 $m	2020 $m
Dividend paid in respect of prior year	**–**	0.43	**–**	20.6
Dividend paid	**0.66**	–	**375.0**	–
			375.0	20.6

A $375.0m dividend was paid to the class B shareholders on 7 September 2021 in accordance with the Brit Limited shareholders' agreement an amount equal to $0.66 per share.

No dividend was paid to the class B shareholders in respect of the year-ended 31 December 2020 (2020: $20.6m/$0.43 per share).

12 Share-based payments

The Company rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments.

Further detail in respect of the Group's share-based incentive schemes can be found in Note 36 of the notes accompanying the Brit Limited Group consolidated Financial Statements.

13 Disclosure exemptions

This Note explains the Company's approach to qualifying exemptions available in FRS 102.

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

- Statement of cash flows;
- A reconciliation of shares outstanding at the beginning and end of the period;
- Specific information relating to financial instruments that is included within equivalent disclosures for the Group;
- Specific information relating to share-based payments that is included within equivalent disclosures for the Group; and
- Disclosure of key management personnel compensation (included in Note 38 of the Group financial statements).

The Brit Limited consolidated financial statements and accompanying notes provide further detail in respect of these areas.

14 Ultimate parent company and other related undertakings

The ultimate parent company and controlling entity, and the largest group of which the Group is a member, is Fairfax Financial Holdings Limited (Fairfax) which is registered in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements for Fairfax are publicly available and can be obtained from the Corporate Secretary, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.

A subsidiary of the Company holds a significant investment in Sutton Special Risk Inc ('Sutton'), which is reported in the consolidated financial statements of the Group as an associated undertaking. Sutton is registered in Canada with offices at 3 Yonge Street, Suite 400, P.O. Box 311, Toronto, Ontario, Canada, M5E 1G4.

Further information on other related undertakings of the Company can be found in Note 37 Consolidated Entities of the notes to the consolidated financial statements.

reconciliation of key performance indicators to the financial statements

Return on net tangible assets (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	2021 $m	2020 $m
Profit/(loss) for the year after tax attributable to the owners of the parent	Consolidated income statement	**248.5**	(229.3)
Add back: Tax adjusted amortisation	Amortisation of intangibles, adjusted by the tax rate	**9.5**	8.7
Add back: Tax adjusted pension credit in income statement	Defined benefits schemes' impact on income statement	**(0.6)**	(0.8)
Add back: Tax adjusted FX	FX effect for the year, adjusted by the tax rate	**17.5**	(5.6)
Return, as adjusted for RoNTA calculation		**274.9**	(227.0)
Adjusted NTA at start of year	See 'adjusted net tangible assets' section below.	**1,436.8**	1,150.4
Less: Pension asset net of deferred tax at start of year		**(31.7)**	(33.7)
External distributions and share issuances	Weighted adjustment to reflect distributions and shares issued during the year.	**9.6**	10.2
NTA, as adjusted for RoNTA calculation		**1,414.7**	1,126.9
RoNTA	Return, as adjusted for RoNTA calculation, divided by NTA, as adjusted for RoNTA calculation.	**19.4%**	(20.1)%

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

	Comment/financial statements reference	2021 $m	2020 $m
Total equity attributable to owners of the parent	Consolidated statement of financial position	**1,912.4**	1,592.6
Less: Intangible assets	Consolidated statement of financial position	**(205.3)**	(181.2)
Net tangible assets		**1,707.1**	1,411.4
Add back deferred tax liability on intangible assets	Note 21: Deferred taxation	**33.5**	25.4
Adjusted net tangible assets		**1,740.6**	1,436.8

Combined ratio, claims ratios and expense 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 of each of the ratios are set out below:

	Comment/financial statements reference	2021 $m	2020 $m
Earned premium, net of reinsurance	Note 5: Segmental information	**1,754.3**	1,710.7
Adjustment for loss portfolio reinsurance	Note 5: Segmental information; note (i) below	**344.1**	–
Adjusted earned premium, net of reinsurance		**2,098.4**	1,710.7
Attritional claims		**(657.3)**	(897.7)
Major claims		**(324.4)**	(404.8)
Reserve releases:			
– Resulting from the additional protection afforded by the loss portfolio reinsurance		**35.0**	–
– Other		**65.1**	63.4
Claims incurred, net of reinsurance	Note 5: Segmental information	**(881.6)**	(1,239.1)
Adjustment for loss portfolio reinsurance	Note 5: Segmental information; note (i) below	**(344.1)**	–
		(1,225.7)	(1,239.1)
Acquisition costs – commissions	Note 5: Segmental information	**(528.4)**	(453.3)
Acquisition costs – other and Other insurance related expenses	Note 5: Segmental information	**(312.8)**	(259.3)
Other income	Note 5: Segmental information	**56.6**	29.7
Gains/(losses) on other financial liabilities	Note 5: Segmental information	**2.5**	(6.0)
Underwriting expenses		**(782.1)**	(688.9)
Underwriting profit/(loss)		**90.6**	(217.3)
Attritional claims ratio	'Attritional claims' divided by 'adjusted earned premium, net of reinsurance'	**47.7%**	52.5%
Major claims ratio	'Major claims' divided by 'adjusted earned premium, net of reinsurance'	**15.5%**	23.7%
Reserve release ratio	'Reserve releases' divided by 'adjusted earned premium, net of reinsurance'	**(4.8)%**	(3.7)%
Claims ratio	Sum of the 'attritional claims ratio', the 'major claims ratio' and the 'reserve release ratio' Note 5: Segmental information	**58.4%**	72.4%
Commission expense ratio	'Acquisition costs – commissions' divided by 'adjusted earned premium, net of reinsurance'	**25.2%**	26.5%
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%**	13.8%
Expense ratio	Sum of the 'commission expense ratio' and the 'operating expense ratio' Note 5: Segmental information	**37.3%**	40.3%
Combined ratio	Sum of the 'claims ratio' and the 'expense ratio'. Note 5: Segmental information	**95.7%**	112.7%

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 combined ratio excluding the impact of COVID-19 is based on the above calculation, but adjusted for COVID-19 related claims (2021: $28.2m; 2020: $271.4m) and COVID-19 related reserve releases (2021: $12.3m; 2020: nil).

reconciliation of key performance indicators to the financial statements

Investment return

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

	Comment/financial statements reference	2021 $m	2020 $m
Share of net profit of associates	Consolidated income statement	**1.7**	2.0
Return on financial investments and cash and cash equivalents	Note 6: Investment return (Note 1)	**167.2**	56.5
Return on investment related derivatives	Note 7: Return on derivative contracts	**3.0**	(13.9)
Return on invested assets		**171.9**	44.6
Investment in associated undertakings	Note 15: Investment in associated undertakings	**15.0**	20.5
Financial investments	Note 24: Financial investments	**4,015.0**	4,056.6
Derivative contracts (investment related)	Note 25: Derivative contracts	**5.9**	4.3
Cash and cash equivalents	Note 28: Cash and cash equivalents	**1,510.3**	775.7
Invested assets		**5,546.2**	4,857.1
Opening invested assets		**4,857.1**	4,182.2
Closing invested assets		**5,546.2**	4,857.1
Average invested assets		**5,201.7**	4,519.7
Investment return (%)	Return on invested assets divided by average invested assets	**3.3%**	1.0%

Capital ratio

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

	Comment/financial statements reference	2021 $m	2020 $m
Total equity attributable to owners of the parent	Consolidated statement of financial position	**1,912.4**	1,592.6
Less: Intangible assets	Consolidated statement of financial position	**(205.3)**	(181.2)
Net tangible assets		**1,707.1**	1,411.4
Add: Deferred tax liability on intangible assets	Note 21: Deferred taxation	**33.5**	25.4
Adjusted net tangible assets		**1,740.6**	1,436.8
Subordinated debt	Note 30: Borrowings	**182.9**	184.5
Letters of credit/contingent funding	Under our capital policy we have identified a maximum of $250.0m of our revolving credit facility to form part of our capital resources; In addition, we have identified the owners of the parent's share of the letter of credit held to support Ki's underwriting	**276.0**	260.0
Total available capital resources		**2,199.5**	1,881.3
Management entity capital requirements	The capital required by an entity for business strategy and regulatory requirements.	**(1,581.6)**	(1,540.3)
Excess of resources over management entity capital requirements		**617.9**	341.0
Capital ratio	Total available capital resources divided by management entity capital requirements	**139.1%**	122.1%

company information

Directors

Mr Gordon Campbell – Chair
Mr Matthew Wilson – Group Chief Executive Officer
Mr Martin Thompson – Interim Group Chief Executive Officer (appointed 3 November 2021)
Mr Gavin Wilkinson – Group Chief Financial Officer (appointed 28 July 2021)
Mr Mark Allan – Executive Director
Mr Andrew Barnard – Non-executive Director
Mr Ken Miner – Non-executive Director (appointed 27 August 2021)
Ms Andrea Welsch – Non-executive Director

Company Secretary

Mr Tim Harmer

Registered Office

The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB
UK

Telephone: +44 (0) 20 3857 0000

Website

www.britinsurance.com
The Company website provides information about Brit Limited including information on the business, annual reports, half yearly reports and announcements to the London Stock Exchange.

Registered Number

08821629

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

glossary

A

Acquisition costs: Costs incurred in the course of writing business and issuing policies including commissions paid to intermediaries and related internal expenses such as underwriter related costs.

Adjusted net tangible assets or **adjusted NTA:** Total equity, less intangible assets net of the deferred tax liability on those intangible assets, less non-controlling interest.

Aggregate exposure: The expected maximum total of claims that could be incurred by an insurer in respect of any event or series of similar events. Also see 'realistic disaster scenarios'.

Asset allocation: The allocation of our investments across different kinds of asset classes, such as equities, bonds, and cash, in order to achieve a balance between return and risk.

Attritional claims/losses: Common claims/losses, as opposed to major or catastrophe losses, incurred from ordinary insurance and/or reinsurance operations.

Attritional claims ratio: Attritional claims incurred net of reinsurance divided by adjusted earned premiums net of reinsurance.

Available capital resources: Adjusted net tangible assets, subordinated debt and letters of credit/contingent funding.

B

BGSB: Brit Global Specialty Bermuda, the business of the Group operating in Bermuda.

BGSU: Brit Global Specialty USA, the business of the Group operating in the United States, of which BISI is the managing general agent.

Binder business: Business conducted by a coverholder acting under a binding authority.

Binding authority: See 'delegated underwriting authority'.

BISI: Brit Insurance Services USA, Inc., a company incorporated in Illinois, USA.

Brit Re: Brit Reinsurance (Bermuda) Limited.

BMA: Bermuda Monetary Authority, the integrated regulator of financial services in Bermuda, established under the Bermuda Monetary Authority Act 1969.

Broker: An intermediary who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered.

C

Camargue: Camargue Underwriting Managers (Proprietary) Limited, a South African coverholder 100% owned by Brit.

Capital ratio: Total available capital resources divided by management entity capital requirements.

Capital resources: Total equity attributable to owners of the parent, less intangible assets net of related plus subordinated debt, plus deferred tax, plus a proportion (as agreed from time to time) of our revolving credit facilities.

Captive: An entity that provides risk-mitigation services for other entities within the same Group only.

Catastrophe or **Cat:** Perils including earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability.

Claims: Moneys demanded by an insured for indemnity under an insurance contract.

Claims development triangles: Tabulations of claims development data, set out with underwriting years along one axis and calendar years of development along the other.

Claims incurred: Claims arising from events that have occurred, regardless of whether or not they have been reported to the insurer.

Claims ratio: Total available capital resources divided by management entity capital requirements.

Combined ratio (CoR): The sum of the claims ratio and the expense ratio.

Capital resources: Total equity attributable to owners of the parent, less intangible assets net of related plus subordinated debt, plus deferred tax, plus a proportion (as agreed from time to time) of our revolving credit facilities.

Commission expense ratio: Commission costs divided by adjusted earned premiums net of reinsurance.

Constant FX rates: An increase or decrease in figures between two years after eliminating the effect of foreign exchange rate movements.

Corporate member: A company providing the capital to support the underwriting activity of a syndicate at Lloyd's. Brit's corporate member is Brit UW Limited.

Coverholder: An entity authorised by an insurer to enter into a contract of insurance on its behalf.

D

Deferred acquisition costs or **DAC:** Costs incurred for the acquisition or renewal of insurance policies which are capitalised and amortised over the term of those policies.

Delegated underwriting authority: An authority granted by an underwriter to an agent (known as a coverholder) whereby that agent is entitled to accept, within certain limits, insurance business on behalf of the underwriter. The coverholder has full power to commit the underwriter within the terms of the authority.

Dollar ($): Refers to the US dollar.

E

Earned premium: That proportion of a premium which relates to the portion of a risk which has expired during a given period.

ESOS: The energy savings opportunity scheme or ESOS, is a mandatory government initiative to promote energy efficiency in large businesses.

Excess and Surplus or **E&S:** A generic US regulatory classification referring to insurance coverage not ordinarily written by insurers fully admitted in various states. The E&S lines business is largely unregulated as to rate and form but insurers must be authorised to write such business in a state by the local regulator.

Excess of loss or **XL:** A type of reinsurance that covers specified losses incurred by the reinsured party in excess of a stated amount (the excess) up to a higher amount of limit, for example $5m excess of $1m. Such coverage can operate on a per loss basis or an aggregate basis.

Executive Committee or **EC:** A committee at Brit consisting of the senior management and the Group CEO.

Expense ratio: The sum of the commission expense ratio and the operating expense ratio.

F

FCA: The UK Financial Conduct Authority, established pursuant to the Financial Services Act 2012 and responsible for, among other things, the conduct regulation of all firms authorised and regulated under FSMA and the prudential regulation of firms which are not regulated by the PRA.

First Dollar: An insurance policy written with low excess and deductible, and written in the admitted market.

Funds at Lloyd's or **FAL:** Funds held in trust at Lloyd's to support a Lloyd's underwriter's underwriting activities.

G

Gearing ratio: Calculated as total borrowings (subordinated debt, revolving credit facility cash drawdowns and uncollateralised drawn letters of credit) divided by adjusted net tangible assets and subordinated debt.

Gross written premium or **gross premiums written** or **GWP:** Amounts payable by the insured, including any brokerage or commission deducted by intermediaries but excluding any taxes or duties levied on the premium.

H

Hardening or **hard market:** An insurance market where prevalent prices are high, with more restrictive terms and conditions offered by insurers.

HMRC: Her Majesty's Revenue and Customs.

I

ILS or **Insurance-linked securities:** ILSs are essentially financial instruments which are sold to investors whose value is affected by an insured loss event.

Incurred but not reported or **IBNR:** Claims incurred but not reported, including claims which are incurred but not enough reported (i.e. where the amount of the notification is insufficient).

International Accounting Standards or **IAS:** See 'International Financial Reporting Standards'.

International Financial Reporting Standards or **IFRS:** Accounting and reporting Standards established by the International Accounting Standards Board, as adopted in the UK. UK listed entities have reported on an IFRS basis since 2005.

Invested assets: Financial investments, investment in associated undertakings, cash and cash equivalents and investment related derivatives.

Investment related derivatives: Includes options and interest rate swaps. Excludes currency forwards.

Investment return percentage: Investment return expressed as a percentage of average invested assets.

glossary

L

Lead underwriter or **lead:** A lead underwriter (usually a specialist in the field of the insurance concerned) is the first underwriter to take a portion of a risk, quote an appropriate rate of premium and set terms and conditions.

Letter of credit or **LoC:** A written undertaking by a financial institution to provide funding if required.

LIBOR: The daily London Interbank Offered Rate set by the British Banking Association.

Line size: The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Lloyd's Brussels (LBS): The insurance company of Lloyd's located in Brussels, authorised and regulated by the National Bank of Belgium, which writes all non-life risks from the European Economic Area.

Lloyd's China Platform: The branch of Lloyd's in Shanghai in the People's Republic of China operated through Lloyd's Insurance Company (China) Limited, on which certain Lloyd's syndicates have representation.

Lloyd's of London: The Society of Lloyd's and Corporation of Lloyd's created and governed by the Lloyd's Acts 1871-1982, including the Council of Lloyd's (and its delegates and other persons through whom the Council may act), as the context may require.

London Market: The London insurance market, which includes the Lloyd's market.

Long-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is over three years.

M

Major claims or **Major losses:** Major claims are defined as claims which are initially assessed as having the potential to exceed $15.0m (net of reinsurance and allowing for reinstatements), incurred from natural or man-made catastrophes, or from large single risk loss events.

Major claims ratio: Claims incurred from major loss events net of reinsurance divided by adjusted earned premiums net of reinsurance.

Management entity capital requirement: The capital required by an entity for business strategy and regulatory requirements.

N

Net earned premium or **NEP:** The net written premium adjusted by the change in net unearned premium (i.e. the premium for which insurance exposure has yet to be incurred) for a year.

Net tangible assets or **NTA:** The total assets of a company, minus any intangible assets, less all liabilities.

Net written premiums or **NWP:** Gross premiums written during a specified period less outwards reinsurance premiums ceded.

Non-controlling interest: The equity in a subsidiary not attributable, directly or indirectly, to a parent.

O

Operating expense ratio: Other acquisition costs, other insurance related expenses, gains/losses on other financial liabilities and other income divided by adjusted earned premiums net of reinsurance.

Outstanding claims: Claims which have been notified at the reporting date but not settled.

Own risk and solvency assessment or **ORSA:** The name given to the entirety of the processes and procedures employed by an insurer to identify, assess, monitor, manage and report the short and long-term risks it faces or may face and to determine the capital necessary to ensure that the insurer's overall solvency needs are met at all times.

P

PRA: The UK Prudential Regulation Authority established pursuant to the Financial Services Act 2012 and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Protected cell company or **PCC:** A company that has been separated into legally distinct portions or cells. The revenue streams, assets and liabilities of each cell are kept separate from all other cells. Each cell has its own separate portion of the PCC's overall share capital, allowing shareholders to maintain sole ownership of an entire cell.

Q

Quota share or **QS:** A type of reinsurance which provides that the reassured shall cede to the reinsurer a specified percentage of all the premiums that it receives in respect of a given section or of all of its underwriting account for a given period in return for which the reinsurer is obliged to pay the same percentage of any claims and specified expenses arising on the reinsured business.

R

Rate change: See risk adjusted rate change.

Realistic Disaster Scenarios or **RDS:** Specific scenarios which the Group uses to test its ability to settle claims arising from certain types of disaster.

Reinsurance: The transfer of some or all of an insurance risk to another insurer. The company transferring the risk is called the 'ceding company' and the company assuming the risk is called the 'assuming company' or the 'reinsurer'.

Representative office: An office established by Brit to conduct marketing and other non-transactional operations overseas.

Reserves: Outstanding claims and claims incurred but not reported.

Reserve releases: The amount of the reserves at the end of the previous period determined as being excess to requirements at the end of the current period.

Reserve release ratio: Reserve releases divided by adjusted earned premiums net of reinsurance.

Retention ratio: The ratio, in percent, of the value of premiums relating to risks written in one year renewed in the following year. The data used is risk adjusted (i.e. it allows for changes to terms and conditions).

Risk adjusted rate change: Change in premium rates during the year expressed as a percentage of opening premium rates. The data reflects internal estimates by Brit's underwriters, based on available year-on-year underlying renewal data after allowing for changes to terms and conditions. Generally, no adjustment is made to the figures to reflect the impact of inflation beyond the level of inflation in the underlying exposure measure used in pricing.

Risk management framework or **RMF:** The Group's own internal framework for risk management.

Return on net tangible assets (RoNTA): Profit/(loss) for the year after tax attributable to the owners of Brit Limited (adjusted for amortisation net of tax, defined benefit pension scheme's charges/credits net of tax, and foreign exchange movements net of tax), divided by total equity attributable to the owners of Brit Limited at start of year (less intangible assets net of deferred tax, and pension asset net of deferred tax), adjusted on a time weighted basis for any distributions and shares issued during the year.

Running yield: The income return, expressed either as a percentage or a monetary amount, on invested assets.

S

Service companies: Subsidiary companies set up to operate a binding authority on behalf of the Syndicate to write business from non-Lloyd's brokers or direct from policymakers.

Short-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is under three years.

Softening or **soft market:** An insurance market where prevalent prices are low, and terms and conditions offered by insurers are less restrictive.

Solvency capital requirement or **SCR:** The higher of the two capital levels required by Solvency II. The SCR is the prudent amount of assets to be held in excess of liabilities and functions as an early warning mechanism if it is breached. The SCR is calculated using either the standard formula or an approved internal model.

Solvency matched: The matching of the currencies of the Group's liabilities and management entity capital requirements with the currencies of the assets held by the Group.

Solvency II: A combination of several EU Directives that codify and harmonise EU insurance regulation, primarily concerning the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Principal components are Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance and Directive 2012/23/EU on the financial position of insurance undertakings. Solvency II came into force in all EU member states on 1 January 2016.

Strategic asset allocation or **SAA:** The Group's strategic asset allocation defines the overall Group investment strategy and reflects entity-level considerations and governance matters. See 'asset allocation'.

Syndicate: A group of underwriting members of Lloyd's or a single corporate member managed as a unit to underwrite insurance business at Lloyd's to which a particular syndicate number is assigned by or with the authority of Lloyd's of London.

glossary

T

Tail: See 'short-tail' and 'long-tail'.

Technical price: The price for the risk which is expected to produce the long-term required return on capital for the Group.

The Company: Brit Limited.

The Group: Brit Limited and its subsidiaries.

The Syndicate: Brit Syndicate 2987, Brit Syndicate 2988 or Ki Syndicate 1618.

Total invested assets: See 'invested assets'.

Total operating expenses: These represent all expenses incurred by the Group, excluding commission costs.

Treaty: A reinsurance contract pursuant to which the reinsurer is obliged to accept, within agreed limits, all risks underwritten by the reinsured within specified classes of business in a given time period.

U

Ultimate claims: The total forecast claims expected to arise from a policy or class of business. Ultimate claims include those losses paid, those notified and IBNR.

Underlying operating expenses: Calculated as Total operating expenses less project costs and other timing differences. Underlying operating expenses include bonus costs.

Underwriting capacity: The maximum premium income which a Lloyd's syndicate is permitted to underwrite. A capacity figure is assigned to each underwriting year and the relevant premium income is defined as gross written premiums less commission payable.

Underwriting profit: Operating profit generated by our underwriting segments less investment return.

Unearned premium reserve or **UPR:** The portion of premium income written in the calendar year that is attributable to periods after the reporting date. It is accounted for as unearned premiums in the underwriting provisions.

Unrealised gains or **Unrealised losses:** Gains or losses that are yet to be crystallised in the form of a cash movement from disposals of invested assets.

Brit Limited
The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB, UK
www.britinsurance.com

BRIT
writing the future